S. Hrg. 99-53

HOUSING, COMMUNITY DEVELOPMENT, AND MASS TRANSPORTATION AUTHORIZATIONS—1986

HEARINGS

BEFORE THE

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

S. 667

TO AMEND AND EXTEND CERTAIN FEDERAL LAWS RELATING TO HOUSING, COMMUNITY AND NEIGHBORHOOD DEVELOPMENT, AND RELATED PROGRAMS, AND FOR OTHER PURPOSES

S. 591

TO AMEND SECTION 119(d) OF THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1974

MARCH 22, 25, AND APRIL 15, 1985

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U.S. GOVERNMENT PRINTING OFFICE

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WITNESSES

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HOUSING, COMMUNITY DEVELOPMENT, AND MASS TRANSPORTATION AUTHORIZATIONS—1986

FRIDAY, MARCH 22, 1985

U.S. Senate,
Committee on Banking, Housing, and Urban Affairs,
Subcommittee on Housing and Urban Affairs,
Washington, DC.

The subcommittee met at 9:30 a.m., in room SD-538, Dirksen Senate Office Building, Senator Chic Hecht presiding.

Present: Senators Hecht, Proxmire, and Cranston.

OPENING STATEMENT OF SENATOR HECHT

Senator Hecht. Good morning, everyone. It is 9:30 and we will start punctually. This hearing of the Subcommittee on Housing and Urban Affairs is called to order. It is indeed an honor and a pleasure to conduct this hearing today, in my new designation as chairman of this subcommittee. This proceeding begins the reauthorization process for the programs under the Department of Housing and Urban Development, the Farmers Home Administration, and the Urban Mass Transportation Administration. We will hear testimony from our witnesses on the budget recommendations proposed by the administration for Public and Rural Housing, Mass Transit, Community Development, and the Flood Insurance Programs.

We have assembled a broad cross section of witnesses who are intimately aware of and responsible for the various programs under our jurisdiction. They represent State and local governments, program managers, private industries, and the administration.

Over the first 2 months of the 99th Congress, the deficit has been the prime focus of the debate. Finger pointing, name calling, and exaggerated claims of abandonment have proliferated. Yet, we still have the deficit.

Some will argue that in relation to deficit cutting, housing has already assumed a disproportionate share of the cuts and should be spared this round. In fact, some will even argue that we should return to the funding levels of the past.

However, with budget deficits upward of $200 billion staring us in the face, this approach is simply unacceptable. In the next few months, we, on this subcommittee, and, indeed, the entire Congress, must work together and make the difficult decisions necessary to relieve the deficit pressures which threaten to undermine the strength of our economy.

By taking this action now, we can assure that we can continue to provide the necessary assistance to those who are most vulnerable in our society. Failure to do so will be disastrous.

The Budget Committee has recently completed action which achieves budget outlay savings of $55.1 billion for fiscal year 1986. Their action makes cuts and revisions across the board. The Banking Committee would be charged with making program revisions and cuts which add up to $4.1 billion in outlay savings. Many of these savings are from the programs of this subcommittee. We will have to make some very difficult decisions in order to meet these goals.

I firmly believe the President has made it very clear that he will not be shy with his veto powers if we don't make those decisions.

I was truly amazed that during discussions of deficit reduction efforts, raising taxes was suggested as a way to achieve the goals. Economist, Milton Friedman, was right on target when he said:

> You can't reduce the deficit by raising taxes. Taxes only result in more Federal spending. Political rule No. 1 is Government spends what Government receives, and then as much as they can get away with.

It would be vitally important that we analyze these programs under our jurisdiction to find ways to implement inefficiencies that will ensure that the maximum amount of the available program dollars are directed toward the truly needy beneficiaries and not the intermediaries.

The subcommittee is willing to consider any suggestions designed to streamline these programs. We can still meet our commitments to providing for low-income beneficiaries while at the same time doing our part in reducing the deficit.

We will continue these hearings on Monday with representatives of the private sector, cities, and mass transit systems. At this time, April 15 is the day set aside for the administration witnesses along with representatives for rural housing.

[Copy of proposed bills S. 667 and S. 591 follow:]

99TH CONGRESS
1ST SESSION

S. 667

To amend and extend certain Federal laws relating to housing, community and neighborhood development, and related programs, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 14 (legislative day, FEBRUARY 18), 1985

Mr. GARN (for himself and Mr. HECHT) (by request) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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A BILL

To amend and extend certain Federal laws relating to housing, community and neighborhood development, and related programs, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Housing and Community Development Amendments of 1985".

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TITLE I—COMMUNITY AND NEIGHBORHOOD DEVELOPMENT

AUTHORIZATIONS—TITLE I OF THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1984

SEC. 101. (a) The second sentence of section 103 of the Housing and Community Development Act of 1974 is amended to read as follows: "There are authorized to be appropriated for purposes of assistance under sections 106 and 107 not to exceed $3,468,000,000 for fiscal year 1984, not to exceed $3,472,000,000 for fiscal year 1985, not to exceed $3,124,800,000 for fiscal year 1986, and such sums as may be necessary for fiscal year 1987.".

(b) The first sentence of section 107(a) of such Act is amended to read as follows: "Of the total amount approved in appropriation Acts under section 103 for each of the fiscal years 1984, 1985, 1986, and 1987, not more than $66,200,000 for fiscal year 1984, not more than $60,500,000 for each of fiscal years 1985 and 1986, and such sums as may be necessary for fiscal year 1987 may be set aside in a special discretionary fund for grants under subsection (b).".

DEFINITIONS

SEC. 102. (a) Section 102(a)(13) of the Housing and Community Development Act of 1974, as redesignated by section 107(d)(1)(D) of this Act, is amended to read as follows:

"(13) The term 'Indian tribe' means any Indian tribe, band, nation, or Alaskan Native Village recognized by the Secretary of the Interior as eligible for services because of its status as such an entity: *Provided,* That part or all of the land of such an entity is held in restricted or trust status by the United States.".

(b) The last sentence of section 102(a)(16)(A) of such Act, as redesignated by section 107(d)(1)(D) of this Act, is amended by inserting before the period at the end thereof the following:

", except that in the case of amounts distributed under section 106(d) to units of general local government located in nonmetropolitan areas, the area involved shall be the entire nonmetropolitan area of the State".

STATEMENT OF ACTIVITIES AND REVIEW

SEC. 103. (a) Section 104(a)(1) of the Housing and Community Development Act of 1974 is amended by striking out the last sentence.

(b) Section 104(b)(4) of such Act is amended by striking out "it" and inserting in lieu thereof the following: "in the

case of grants to cities and counties under section 106(b), the grantee".

(c)(1) Section 104(c) of such Act is hereby repealed.

(2) The first sentence of section 104(a)(1) of such Act is amended by striking out "and, where appropriate, subsection (c)".

(3) The penultimate sentence of section 104(a)(2) of such Act is amended by striking out "and, where appropriate, subsection (c)".

(4) Section 104(b)(5) of such Act is amended to read as follows:

"(5) in the case of grants to cities and counties under section 106(b), the grantee will cooperate in the provision of housing opportunities suited to the needs of persons of low and moderate income residing in the community or who are expected to reside in the community as a result of current or planned employment;".

(5) Section 104(d)(1) of such Act is amended by striking out "and, where applicable, its housing assistance plan".

(6) The first sentence of section 106(c)(1) of such Act is amended by striking out "section 104(a), (b), or (c)" and inserting in lieu thereof "section 104(a) or (b)".

(7) The second sentence of section 8(c)(1) of the United States Housing Act of 1937 is amended by striking out "or

that such higher rent is necessary" and all that follows through "1974".

(8) Section 18(b)(1) of such Act is amended to read as follows:

"(1) the application from the public housing agency contains evidence that (A) it has been developed in consultation with tenants and tenant councils, if any, that will be affected by the demolition or disposition, and (B) in the case of an application involving at least (i) 20 units or (ii) ten per centum of the public housing agency's total number of public housing units, whichever is less, it has been reviewed by, and contains any comments of, the chief executive officer, or designee, of the appropriate unit of general local government; and".

(d) Section 106(d)(5) of the Housing and Community Development Act of 1974 is amended by—

(1) inserting "and" at the end of clause (B);

(2) striking out "; and" at the end of clause (C) and inserting in lieu thereof a period; and

(3) striking out clause (D).

ALLOCATION AND DISTRIBUTION OF FUNDS

SEC. 104. (a)(1) The first sentence of section 106(a) of the Housing and Community Development Act of 1974 is amended by striking out "70" and inserting in lieu thereof "60".

(2) The first sentence of section 106(d)(1) of such Act is amended by striking out "30" and inserting in lieu thereof "40".

(b) The second sentence of section 106(c)(1) of such Act is amended by—

(1) inserting "which are eligible to receive reallocated funds" before "for that fiscal year, except that—";

(2) striking out in clause (B) "an action" and inserting in lieu thereof "actions";

(3) striking out in clause (B) "a city or county" and inserting in lieu thereof "any city or county"; and

(4) striking out in clause (B) "such action" the last time it appears and inserting in lieu thereof "such actions".

(c)(1) Section 104(a)(1) of such Act is amended by—

(A) striking out in the first sentence ", under section 106(d) by any State, or under section 106(d)(2)(B) by any unit of general local government" and inserting in lieu thereof the following: "or under section 106(d) by any State"; and

(B) striking out in the second sentence "and in the case of units of general local government receiving grants pursuant to section 106(d)(2)(B)".

(2) Section 104 of such Act is amended by—

(A) striking out the fifth and sixth sentences of subsection (d)(1); and

(B) inserting in subsection (d)(1) after "section 106(d)(2)(B)" the following: "(as such provision existed immediately before the effective date of the Housing and Community Development Amendments of 1985)".

(3) Sections 106(d)(2) (A) and (B) of such Act are amended to read as follows:

"(2)(A) Amounts allocated under paragraph (1) shall be distributed by the State to units of general local government which are located in nonentitlement areas of the State to carry out activities in accordance with the provisions of this title. For the purposes of this subsection, distributions shall not include loans to units of general local government. The State shall distribute amounts allocated to it consistent with the statement submitted under section 104(a) and shall be responsible for the administration of funds so distributed.

"(B) Any amounts appropriated for fiscal year 1985 or prior fiscal years which were available for distribution under this subsection by the Secretary immediately before the effective date of the Housing and Community Development Amendments of 1985 shall be distributed by the Secretary in accordance with the

provisions of this subsection as they existed immediately before such effective date, except that amounts which are not obligated by January 1, 1986, (i) shall be added to amounts allocated to the State under paragraph (1) for fiscal year 1986, or (ii) if the State does not elect to receive a grant for fiscal year 1986, shall be deposited in miscellaneous receipts of the Treasury of the United States.".

(4) Section 106(d)(3)(A) is amended by striking out the first sentence.

(5) Section 106(d)(3) of such Act is amended by—

(A) striking out subparagraph (B) and redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively; and

(B) inserting in subparagraph (C), as redesignated by paragraph (6)(A) of this subsection, "(i)" before "shall be added" and inserting immediately before the period at the end thereof the following: "or (ii) if the State does not receive a grant for such year, shall be deposited in miscellaneous receipts of the Treasury of the United States".

(6) Section 106(d)(5) of such Act is amended by striking out "or the Secretary".

(6) Section 106(d)(2) of such Act is amended by—

(1) striking out in subparagraph (C) "the Governor must certify that the State" and inserting in lieu thereof "the State must certify that it"; and

(2) striking out in subparagraph (D) "the Governor of each State" and inserting in lieu thereof "the State".

ENTITLEMENT TRANSITION

SEC. 105. (a) Section 102(a) of the Housing and Community Development Act of 1974 is amended by—

(1) striking out the second sentence in paragraph (6);

(2) amending paragraph (7) to read as follows:

"(7) The term 'nonentitlement area' means an area which is not a metropolitan city, part of an urban county, or a city or a county which is eligible to receive a grant under section 106(b)(7)(B) or (b)(8) in the first year of such eligibility."; and

(3) amending paragraph (12) to read as follows:

"(12) The term 'extent of growth lag' means the number of persons who would have been residents in a city or a county eligible to receive a grant under section 106(b), in excess of the current population of such city or county, if such city or county had had a population growth rate between 1960 and the date of the most recent population count referable to the same

point or period in time equal to the population growth rate for such period of all metropolitan cities.".

(b) The first two sentences of section 104(a)(1) of such Act are each amended by striking out "metropolitan" and "urban" each time they appear.

(c) Section 105(c)(2)(B) of such Act is amended by striking out "metropolitan city or urban county" and inserting in lieu thereof "a city or county eligible to receive a grant under section 106(b)".

(d) Section 106(a) of such Act is amended by—

(1) striking out "metropolitan cities and urban counties" in the first sentence and inserting in lieu thereof the following: "metropolitan cities, urban counties, and cities and counties eligible to receive a grant under subsection (b) (7) or (8)"; and

(2) striking out "metropolitan city and urban county" in the second sentence and inserting in lieu thereof the following: "metropolitan city, urban county, and city and county eligible to receive a grant under subsection (b) (7) or (8)".

(e) Section 106(b) of such Act is amended by—

(1) inserting after "each metropolitan city" in paragraph (1) the following: "and each city eligible to receive a grant under paragraph (7)";

(2) inserting after "metropolitan cities" in paragraph (1)(B)(i) the following: "and all cities eligible to receive a grant under paragraph (7)";

(3) inserting at the end of paragraph (1) the following new sentence: "Values for population, extent of poverty, extent of housing overcrowding, extent of growth lag, and age of housing used in determining ratios under this paragraph shall be reduced by 50 per centum for cities eligible to receive a grant under paragraph (7)(A), and for cities eligible to receive a grant under paragraph (7)(B) in their second year of eligibility thereunder.";

(4) inserting after "each urban county" in paragraph (2) the following: "and each county eligible to receive a grant under paragraph (8)";

(5) striking out "urban" each time it appears in paragraphs (2)(A), (2)(B) (ii) and (iii);

(6) amending clause (i) of paragraph (2)(B) to read as follows:

"(i) The extent of growth lag in that county and the extent of growth lag in all metropolitan cities, all cities eligible to receive a grant under paragraph (7), all urban counties, and all counties eligible to receive a grant under paragraph (8);";

(7) inserting at the end of paragraph (2) the following new sentence: "Values for population, extent of poverty, extent of housing overcrowding, extent of growth lag, and age of housing used in determining ratios under this paragraph shall be reduced by 50 per centum for counties eligible to receive a grant under paragraph (8) in their second year of eligibility thereunder.";

(8)(A) in the first sentence of paragraph (4), inserting after "urban county" the first time it appears the following: "or county eligible to receive a grant under paragraph (8)", and striking out "urban" each time it appears thereafter;

(9) in paragraph (5), inserting after "urban county" the first time it appears "or county eligible to receive a grant under paragraph (8)", and striking out "urban" each time it appears thereafter; and

(10) adding the following two new paragraphs after paragraph (6):

"(7)(A) Any city that qualified as a metropolitan city for fiscal year 1985 by reason of the second sentence of section 102(a)(4), but that does not qualify as a metropolitan city under that section for fiscal year 1986, shall be eligible to receive a grant computed under paragraph (1) based on 50 per centum of the

values considered in the formulas under that paragraph for fiscal year 1986. A city that is eligible under this subparagraph shall also be eligible to receive a distribution from the State allocation under section 106(d) for fiscal year 1986. A city that is eligible to receive a grant under this subparagraph, but that elects to have its population included in an urban county for fiscal year 1986 shall not receive an allocation under this subparagraph.

"(B) Any city that loses its classification as a metropolitan city by reason of a loss of population or revisions in the designations of metropolitan areas or central cities and that does not qualify under subparagraph (A) shall be eligible to receive a grant computed under paragraph (1) for the two fiscal years immediately following the last fiscal year in which it so qualified. In the first year, the grant shall be based on 100 per centum of the values considered in the formulas under paragraph (1). In the second year, the grant shall be based on 50 per centum of the values considered in the formulas under paragraph (1). A city that is eligible to receive a grant under this subparagraph shall also be eligible for a distribution from the State allocation under section 106(d) for the second (but not first) year of eligibility under this subparagraph. A city that is eli-

gible to receive an allocation under this subparagraph, but that elects to have its population included in an urban county, shall not receive a grant under this subparagraph. No city that receives a grant under this subparagraph for its first year of eligibility for such funding may elect to have its population included in an urban county for its second year of such eligibility.

"(8) Any county that loses its classification as an urban county under section 102(a)(6) by reason of a loss of population (including the classification of a previously included area as a metropolitan city), other than by reason of the election of any unit of general local government included in such county to have its population excluded under section 102(a)(6)(B)(i) or to not renew a cooperation agreement under section 102(a)(6)(B)(ii), shall be eligible to receive a grant computed under paragraph (2) for the two fiscal years immediately following the last fiscal year in which it so qualified: *Provided,* That the county otherwise meets the requirements of section 102(a)(6)(A) and that all units of general local government (except metropolitan cities) located within such county, which could participate with the county, elect to participate with the county for such two-year period. In the first year, the grant shall be based on 100 per centum of the values

considered in the formulas under paragraph (2). In the second year, the grant shall be based on 50 per centum of the values considered in the formulas under paragraph (2). A county that is eligible to receive a grant under this paragraph, and each of its participating units of general local government, shall also be eligible to receive a distribution from the State allocation under section 106(d) for the second (but not first) year of eligibility of the county under this paragraph.".

(f) Section 106(c)(1) of such Act is amended by—

(1) striking out in the first sentence "metropolitan city or an urban county" and inserting in lieu thereof "city or a county eligible to receive a grant under subsection (b)"; and

(2) inserting at the end thereof the following new sentence: "Notwithstanding the foregoing, no reallocated funds shall be awarded to a city or county eligible to receive a grant under subsection (b) (7) or (8).".

(g) Section 106(d)(1) of such Act is amended by inserting at the end thereof the following new sentence: "If a city or county is eligible to receive a grant under section 106(b) (7) or (8) based on 50 per centum of the values for population, extent of poverty, extent of housing overcrowding, and age of housing, the remaining 50 per centum of such values

shall be added to the values for nonentitlement areas in the State in which such city or county is located.".

(h) Section 106(f) of such Act is amended to read as follows:

"(f) If the total amount available for distribution in any fiscal year to cities and counties eligible to receive grants under subsection (b) is insufficient to provide the amounts to which they would be entitled under that subsection, and funds are not otherwise appropriated to meet the deficiency, the Secretary shall meet the deficiency through a pro rata reduction of all amounts determined under that subsection. If the total amount available for distribution in any fiscal year to cities and counties eligible to receive grants under subsection (b) exceeds the amounts to which they would be entitled under that subsection, the Secretary shall distribute the excess through a pro rata increase of all amounts determined under that subsection.".

MISCELLANEOUS AND TECHNICAL AMENDMENTS

SEC. 106. (a) Section 106(d)(3)(A) of the Housing and Community Development Act of 1974 is amended by striking out "$102,000" and inserting in lieu thereof "$100,000".

(b) Section 113 of such Act is amended to read as follows:

"SEC. 113. (a) Not later than one hundred and eighty days after the close of fiscal year 1985 and of every period of three fiscal years thereafter in which assistance under this

title is furnished, the Secretary shall submit to the Congress a report that shall contain—

"(1) a description of the progress made in accomplishing the objectives of this title; and

"(2) a summary of the use of such assistance during the preceding reporting period.

"(b) With respect to grants under section 119, as it existed immediately before the effective date of section 107 of the Housing and Community Development Amendments of 1985, the report required by subsection (a) for fiscal year 1985 shall contain a listing of each unit of general local government receiving funds and the amount of such grants, as well as a brief summary of the projects funded for each such unit, the extent of financial participation by other public or private entities, and the impact on employment and economic activity of such projects during such fiscal year. The report for fiscal year 1985 shall constitute the final report on activities under such section 119.

"(c) The Secretary is authorized to require recipients of assistance under this title to submit such reports and other information as may be necessary in order for the Secretary to make the report required by this section.".

MISCELLANEOUS REPEALERS

SEC. 107. (a)(1) Section 104(g) of the Housing and Community Development Act of 1974 is hereby repealed.

(2) On or after the effective date of this section, no revolving loan fund may be established or extended under section 104(g), as it existed immediately before such effective date.

(3) Any revolving loan fund established under section 104(g), as it existed immediately before the effective date of this section, shall continue to be governed by the provisions of such section 104(g).

(b)(1) Section 107(b) of such Act is amended by striking out paragraph (1) and redesignating the remaining paragraphs accordingly.

(2) On or after the effective date of this section, no grant may be made under section 107(b)(1), as it existed immediately before such effective date.

(3) Any grant made under section 107(b)(1), as it existed immediately before the effective date of this section, shall continue to be governed by the provisions of such section 107(b)(1).

(c)(1) Section 108 of such Act is hereby repealed.

(2) On or after the effective date of this section, no guarantee may be made under section 108, as it existed immediately before such effective date, except pursuant to a commitment to guarantee made before such effective date.

(3) Any guarantee made under section 108, as it existed immediately before the effective date of this section, shall

continue to be governed by the provisions of such section 108.

(4) The second sentence of section 101(c) and section 104(b)(3) of such Act are each amended by inserting after "section 108" the following: "(as such section existed immediately before the effective date of section 107 of the Housing and Community Development Amendments of 1985)".

(d)(1)(A) Sections 119 and 121 of such Act are hereby repealed.

(B) The first sentence of sections 106 (a) and (d)(1) of such Act is amended by striking out "and section 119" each place it appears.

(C) Sections 107(d) (1) and (2) of such Act are each amended by striking out "or section 119".

(D) Section 102(a) is amended by striking out paragraphs (13), (14), (15), (16) and redesignating the remaining paragraphs accordingly.

(2) No grant may be made under section 119, as it existed immediately before the effective date of this section, after the grants awarded for large cities and urban counties for which the decision date under section 570.460 of title 24, Code of Federal Regulations, is September 30, 1985.

(3) Any grant made under section 119, as it existed immediately before the effective date of this section, shall continue to be governed by the provisions of sections 102(a) (13),

(14), (15), and (16), 107(d), 119, and 121 of such Act, as they existed immediately before such effective date.

(4) Any amounts that, in the absence of this subsection, would have been available for making grants under section 119 of such Act on or after the effective date of this section shall be rescinded.

(5) Clause (ii) of the penultimate sentence of section 235(h)(1) of the National Housing Act is amended by inserting after "1974" the following: "(as such section existed immediately before the effective date of section 107 of the Housing and Community Development Amendments of 1985)".

(e)(1) Section 312 of the Housing Act of 1964 is hereby repealed, except that the first and second sentences of section 312(d) shall remain in effect until September 30, 1986, or until the assets and liabilities of the revolving fund under such section are transferred to the Revolving Fund (liquidating programs) established under title II of the Independent Offices Appropriation Act, 1955, whichever is earlier. All monies in the Revolving Fund (liquidating programs) shall be made available for necessary expenses of servicing and liquidating loans made under section 312, including reimbursement or payment for services and facilities of the Government National Mortgage Association and of any public or private entity for the servicing or liquidation of such loans.

(2) On or after the effective date of this section, no loan may be approved under section 312, as it existed immediately before such effective date.

(3) Any loan approved under section 312, as it existed immediately before the effective date of this section, shall continue to be governed by the provisions of such section 312.

(f) This section shall become effective on the later of October 1, 1985, or the date of enactment of this Act.

URBAN HOMESTEADING

SEC. 108. (a) The first sentence of section 810(k) of the Housing and Community Development Act of 1974 is amended by striking out "fiscal year 1984, and such sums as may be necessary for fiscal year 1985" and inserting in lieu thereof the following: "each of fiscal years 1984, 1985, 1986, and 1987".

(b) Section 810 of such Act is amended by—

(1) inserting after "without any substantial consideration" in subsection (b)(1) the following: "in the case of a lower income individual or family, as determined in accordance with secton 3(b)(2) of the United States Housing Act of 1937 or for such consideration, if any, as may be agreed upon by the entity and the individual or family, in the case of an individual or family which is not lower income";

(2) striking out "and" the first time it appears in subsection (b)(2) and inserting in lieu thereof a comma;

(3) inserting immediately before the semicolon at the end of subsection (b)(2) the following: ", and ability to pay any consideration agreed upon in connection with conveyance of the property";

(4) striking out "and" at the end of subsection (b)(3)(C) and inserting "and" after the semicolon at the end of subsection (b)(3)(D);

(5) adding the following new clause (E) at the end of subsection (b)(3)(D):

"(E) pay the agreed upon consideration for the property;";

(6) inserting after "without consideration" in subsection (b)(5) the following: "in the case of a lower income individual or family or for such consideration, if any, as may be agreed upon by the entity and the individual or family, in the case of an individual or family which is not lower income,"; and

(7) inserting at the end of subsection (b) the following:

"Any unit of general local government, State or agency designated by a unit of general local government or a State, which receives consideration in connection with the conveyance of a property to an individual or family under this sec-

tion, shall remit to the Secretary any amounts received in such manner and at such time or times as the Secretary may prescribe. The Secretary shall deposit in miscellaneous receipts of the Treasury of the United States any amounts so remitted.".

EFFECTIVE DATE

SEC. 109. The amendments made by sections 101 through 106 shall apply only with respect to funds available for fiscal year 1986 and thereafter.

TITLE II—HOUSING ASSISTANCE PROGRAMS

PART A—GENERAL

ANNUAL CONTRIBUTIONS FOR LOWER INCOME HOUSING PROJECTS

SEC. 201. (a) Section 5(c) of the United States Housing Act of 1937 is amended by adding at the end thereof the following new paragraph:

"(8) The aggregate amount of budget authority that may be obligated for contracts for annual contributions is increased by $499,000,000 on October 1, 1985, and by such sums as may be approved in appropriation Acts on October 1, 1986. During fiscal year 1986, the Secretary shall not enter into contracts providing for more than $175,000,000 in the aggregate of budget authority for comprehensive improvement assistant under section 14, and no contract shall be entered into for purposes other than to meet emergen-

cies for which assistance under section 14 may be used. The Secretary may enter into contracts for annual contributions in, and the aggregate authority to enter into such contracts is increased by, such amounts as are consistent with the foregoing increase in budget authority.".

(b) Section 9(c) of such Act is amended by striking out "on or after October 1, 1984" and inserting in lieu thereof "thereafter".

PREVENTING FRAUD AND ABUSE IN THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS

SEC. 202. (a) As a condition of initial or continuing eligibility for participation in any program of the Department of Housing and Urban Development involving loans, grants, interest or rental assistance of any kind, or mortgage or loan insurance, and to assure that the level of benefits provided under such programs is proper, the Secretary may require that an applicant or participant (including members of an applicant's or participant's household) disclose his or her social security number or employer identification number to the Secretary.

(b) As a condition of initial or continuing eligibility for participation in any program of the Department of Housing and Urban Development involving initial and periodic review of an applicant's or participant's income, and to assure that the level of benefits provided under such programs is proper,

the Secretary may require that an applicant or participant (including members of an applicant's or participant's household) sign a consent form approved by the Secretary authorizing (1) the Secretary, or the public housing agency or owner responsible for determining eligibility or level of benefits, to verify the information furnished by the applicant or participant, and (2) any Federal, State, or local agency or private person or entity to release information related to the determination of eligibility and benefit level. The information may include, but is not limited to, data concerning wages (not including return information as defined in section 6103(b)(2) of title 26, United States Code), unemployment compensation, benefits made available under the Social Security Act, and veterans benefits under title 38, United States Code. Any individually identifiable information received by the Secretary under this section shall be subject to the requirements of section 552a of title 5, United States Code. An applicant or participant shall have the right to obtain, examine, and correct any information which the Secretary, public housing agency or owner responsible for determining eligibility or level of benefits has received under this section, unless a criminal investigation is pending.

(c) As used in this section—

(1) the term "Secretary" means the Secretary of Housing and Urban Development;

(2) the term "applicant" shall have such meaning as the Secretary by regulation shall prescribe; and

(3) the term "public housing agency" means any agency described in section 3(b)(6) of the United States Housing Act of 1937.

(d) Section 303 of the Social Security Act is amended by adding at the end thereof the following new subsection:

"(g)(1) The State agency charged with the administration of the State law—

"(A) shall disclose, upon request and on a reimbursable basis, to officers or employees of the Department of Housing and Urban Development and to officers or employees of any public housing agency responsibile for determining the eligibility and level of benefits of particular applicants or participants (including members of an applicant's or participant's household), and of the following information contained in the records of the State agency—

"(i) wage information, not including return information as defined in section 6103(b)(2) of title 26, United States Code,

"(ii) whether an individual is receiving, has received, or has made application for, unemployment compensation, and the amount of any such

compensation being received (or to be received) by the individual, and

"(iii) the current (or most recent) home address of the individual, and

"(B) shall establish such safeguards as are necessary (as determined by the Secretary of Labor in regulations) to insure that information disclosed under subparagraph (A) is used only for purposes of determining an individual's eligibility for benefits, or the amount of benefits, under the programs of the Department of Housing and Urban Development.

"(2) Whenever the Secretary of Labor, after reasonable notice and opportunity for hearing to the State agency charged with the administration of the State law, finds that there is failure to comply substantially with the requirements of paragraph (1), the Secretary of Labor shall notify the State agency that further payments will not be made to the State until such Secretary is satisfied that there is no longer any failure to comply. Until the Secretary of Labor is satisfied, such Secretary shall make no further certification to the Secretary of the Treasury with respect to the State.".

REVISED DEFINITION OF DISABILITY

SEC. 203. (a) Clause (A) of the first sentence of section 3(b)(3) of the United States Housing Act of 1937 is amended by striking out "section 102 of the Developmental Disabilities Services and Facilities Construction Amendments of

1970" and inserting in lieu thereof "section 102(7) of the Developmentally Disabled Assistance and Bill of Rights Act".

(b) The third sentence of section 202(d)(4) of the Housing Act of 1959 is amended by striking out "section 102(5) of the Developmental Disabilities Services and Facilities Construction Amendments of 1950" and inserting in lieu thereof "section 102(7) of the Developmentally Disabled and Bill of Rights Act".

PART B—PUBLIC AND INDIAN HOUSING

PUBLIC AND INDIAN HOUSING FINANCING REFORMS

SEC. 211. (a) Section 4(a) of the United States Housing Act of 1937 is amended by adding at the end thereof the following new sentence: "The Secretary shall not make any commitment to make a loan under this subsection except with respect to a lower income housing project for which funding has been reserved before October 1, 1986.".

(b) Section 4 of such Act is amended by adding at the end thereof the following new subsection:

"(c)(1) At such times as the Secretary may determine, and in accordance with such accounting and other procedures as the Secretary may prescribe, each loan made by the Secretary pursuant to subsection (a) that has any principal amount outstanding or any interest amount outstanding or accrued shall be forgiven; the terms and conditions of any

contract, or any amendment to a contract, for such loan with respect to any promise to repay such principal and interest shall be canceled. This cancellation shall not affect any other terms and conditions of such contract, which shall remain in effect as if the cancellation had not occurred. This paragraph shall not apply to any loan, the repayment of which was not to be made using annual contributions, or to any loan, all or part of the proceeds of which are due a public housing agency from contractors or others.

"(2)(A) On September 30, 1985, or on the date of the enactment of the Housing and Community Development Amendments of 1985 into law, whichever is later, each note or other obligation issued by the Secretary to the Secretary of the Treasury pursuant to subsection (b), together with any promise to repay the principal and unpaid interest which has accrued on each obligation, is forgiven; and any other term or condition specified by each such obligation is canceled.

"(B) On September 30, 1986, and on any subsequent September 30, each such note or other obligation issued by the Secretary pursuant to subsection (b) during the fiscal year ending that day, together with any such promise to repay, shall be forgiven; and any other term or condition specified by each such obligation shall be canceled.".

(c) Section 5 of such Act is amended by—

(1) striking our "annual" in the section heading;

(2) striking out subsection (a) and inserting in lieu thereof the following:

"(a)(1) The Secretary may make annual contributions to public housing agencies to assist in achieving and maintaining the lower income character of their projects. The Secretary shall embody the provisions for such annual contributions in a contract guaranteeing their payment. The contribution payable annually under this section shall in no case exceed a sum equal to the annual amount of principal and interest payable on obligations issued by the public housing agency to finance the development or acquisition cost of the lower income project involved. Annual contributions payable under this section shall be pledged, if the Secretary so requires, as security for obligations issued by a public housing agency to assist the development or acquisition of the project to which annual contributions relate and shall be paid over a period not to exceed forty years. The Secretary shall not enter into a contract guaranteeing the payment of annual contributions under this section with respect to public housing projects, except with respect to a project for which funding has been reserved before October 1, 1986.

"(2)(A) On an after October 1, 1987, the Secretary may make one-time capital contributions to public housing agencies to cover the development cost of public housing projects. The contract under which such contributions shall be made

shall specify the amount of capital contributions required for each project to which the contract pertains, and the period (not to exceed forty years) during which the terms and conditions of such contract shall remain in effect.

"(B) There are authorized to be appropriated such sums as may be necessary to carry out the purposes of subparagraph (A).

"(3) The amount of contributions which would be established for a newly constructed project by a public housing agency designed to accommodate a number of families of a given size and kind may be established under this section for a project by such public housing agency which would provide housing for the comparable number, sizes, and kinds of families through the acquisition and rehabilitation, or use under lease, of structures which are suitable for lower income housing use and obtained in the local market."; and

(3) striking out "annual" in subsection (e)(2).

(d) Section 6 of such Act is amended by—

(1) inserting "The" immediately before "Secretary" in the first sentence of subsection (a); and

(2) striking out "annual" the first time it appears in the first sentence of subsection (g), and each place it appears in subsection (d) and the first sentence of each of subsections (a), (b), and (c).

(e) Section 7 of such Act is amended by—

(1) striking out "annual" in the proviso in the first sentence; and

(2) striking out "low-rent" each time it appears in the second sentence and inserting in lieu thereof "public".

(f) Section 9(a)(2) of such Act is amended by—

(1) striking out "being assisted by an annual contributions contract authorized by section 5(c)" and inserting in lieu thereof "one developed pursuant to a contributions contract authorized by section 5"; and

(2) striking out "any such annual" and inserting in lieu thereof "any such".

(g) Section 12 of such Act is amended by striking out "annual".

(h) Section 14 of such Act is amended by—

(1) striking out "receive assistance under section 5(c)" in subsection (c)(2) and inserting in lieu thereof "assisted under section 5"; and

(2) striking out "annual" in each of paragraphs (2) and (4)(C) of subsection (d).

(i) Section 15 of such Act is amended by striking out "with loans or debt service annual contributions" in clause (2).

(j) Section 16(b) of such Act is amended by striking out "annual".

(k)(1) Section 18(a)(2)(B) of such Act is amended by—

(A) inserting immediately before "the net proceeds" the following: "except as otherwise provided by this subparagraph,"; and

(B) inserting immediately before the period at the end thereof the following: "; in the case of a public housing project financed under section 5(a)(2) or with respect to which a loan made under section 4(a) was forgiven under section 4(c), the net proceeds of the disposition will be used in a manner prescribed by the Secretary in regulations, which shall be comparable (as determined by the Secretary, taking into account that the indebtedness was forgiven or a different financing method was used, as appropriate) to the requirements for the use of such net proceeds applicable to other public housing projects under this subparagraph".

(2) Section 18(c) of such Act is amended by striking out "annual contributions authorized under section 5(c)" and inserting in lieu thereof "contributions authorized under section 5".

EXEMPTION OF PUBLIC HOUSING HOMEOWNERSHIP PROGRAMS FROM PROVISIONS PERTAINING TO RENTS PAYABLE BY TENANTS

SEC. 212. Section 3(a) of the United States Housing Act of 1937 is amended by inserting after "under section

8(o)" in the final sentence the following: "or under a public housing homeownership program".

PUBLIC HOUSING AGENCY RECEIVERSHIP

SEC. 213. Section 6 of the United States Housing Act of 1937 is amended by—

(1) redesignating subsection (g) as subsection (f); and

(2) adding the following new subsection:

"(g) Notwithstanding any other provision of this Act or of any contract for annual contributions, upon the occurrence of events or conditions which, in the opinion of the Secretary, constitute a substantial default in respect to the covenants or conditions to which the public housing agency is subject, the Secretary may petition for the appointment of a receiver of the public housing agency to any district court of the United States or to any court of the State or District of Columbia in which the real property of the public housing agency is situated which is authorized under the laws of such jurisdiction to appoint a receiver for the purposes and having the powers prescribed herein. Upon a determination that such a substantial default has occurred, and without regard to the availability of alternative remedies, the court shall appoint a receiver to conduct the affairs of the public housing agency in a manner consistent with this Act and in accordance with such further terms and conditions as the court shall provide. The court shall have power to grant appropriate temporary or

preliminary relief pending final disposition of the petition by the Secretary. The appointment of a receiver shall be terminated upon the petition of the Secretary or when the court determines that all defaults have been cured and that the projects of the public housing agency will thereafter be operated by the public housing agency in accordance with the covenants and conditions to which the public housing agency is subject.".

PART C—OTHER ASSISTED HOUSING

AUTHORIZATION FOR INCREASING BORROWING AUTHORITY FOR DIRECT LOANS FOR HOUSING FOR THE ELDERLY OR HANDICAPPED

SEC. 221. The first sentence of section 202(a)(4)(B)(i) of the Housing Act of 1959 is amended by striking out "such sum as may be approved in an appropriation Act on October 1, 1984" and inserting in lieu thereof "such sums as may be approved in appropriation Acts thereafter".

ESTABLISHMENT OF SECTION 8 FAIR MARKET RENTS FOR EXISTING HOUSING

SEC. 222. Notwithstanding the requirement to establish fair market rents at least annually under section 8(c)(1) of the United States Housing Act of 1937, the Secretary of Housing and Urban Development shall not establish fair market rents for section 8 existing housing for fiscal year 1986. The fair market rents established for fiscal year 1985 shall continue in effect for fiscal year 1986. Establishment of fair market

rents in accordance with section 8(c)(1) shall resume beginning with the fair market rents for fiscal year 1987.

PERMANENT HOUSING VOUCHER PROGRAM; REPEAL OF MODERATE REHABILITATION PROGRAM

SEC. 223. (a) Section 8(o) of the United States Housing Act of 1937 is amended by—

(1) striking out "In connection with" and all that follows through "demonstration program" in the first sentence of paragraph (1) and inserting in lieu thereof "Notwithstanding the provisions of subsection (c), the Secretary is authorized to provide assistance"; and

(2) striking out paragraph (4) and redesignating the remaining paragraphs accordingly.

(b) Section 8(c)(1) of such Act is amended by inserting after the third sentence the following new sentence: "The Secretary shall increase the maximum monthly rental above the amount of assistance otherwise permitted by this paragraph, if the Secretary determines that such increase is necessary to assist in the sale of multifamily housing projects owned by the Secretary.".

(c)(1) Section 8 of such Act is amended by—

(A) striking out in subsection (e) "(e)(1)" and inserting in lieu thereof "(e)";

(B) striking out subsection (e)(2);

(C) striking out in subsection (n) "subsections (b)(1) and (e)(2)" and inserting in lieu thereof "subsection (b)(1)"; and

(D) striking out in subsection (p) "and moderate rehabilitation programs" and inserting in lieu thereof "program".

(2) On or after the effective date of this subsection, no contract may be entered into under section 8(e)(2), as it existed immediately before such effective date, except pursuant to a commitment to contract made before such effective date.

(3) Any contract made under section 8(e)(2), as it existed immediately before the effective date of this subsection, shall continue to be governed by the provisions of such section 8(e)(2).

(4) This subsection shall become effective on the later of October 1, 1985, or the date of enactment of this Act.

(d) Section 5(c) of such Act is amended by striking out clause (v) in each of paragraphs (7)(A) and (B) and redesignating the remaining clauses accordingly.

USE OF HOUSING VOUCHERS IN CONNECTION WITH RENTAL REHABILITATION

SEC. 224. The first sentence of section 8(o)(3) of the United States Housing Act of 1937 is amended by—

(1) striking out "or" before "(C)"; and

(2) inserting before the period at the end thereof the following: ", or (D) a family residing in a project

being rehabilitated under section 17 that is determined to be a lower income family at the time it initially receives assistance and whose rent after rehabilitation would exceed 30 per centum of the family's monthly adjusted income".

ALLOCATION AND USE OF HOUSING ASSISTANCE

SEC. 225. (a) Section 213 of the Housing and Community Development Act of 1974 is amended by striking out the section heading and subsections (a) through (c) and inserting in lieu thereof the following:

"ALLOCATION AND USE OF HOUSING ASSISTANCE

"SEC. 213. (a) This section shall apply to the allocation and use of housing assistance made available under the United States Housing Act of 1937, section 235 or 236 of the National Housing Act, section 101 of the Housing and Urban Development Act of 1965, or section 202 of the Housing Act of 1959.

"(b) The Secretary of Housing and Urban Development shall not approve an application for housing assistance referred to in subsection (a) unless the Secretary determines that there is a need for such assistance and that there are or will be available in the area public facilities and services adequate to serve the housing proposed to be assisted. The Secretary shall give the unit of general local government in which the assistance is to be provided an opportunity, during a thirty-day period following the Secretary's receipt of the

application for assistance, to provide comments or information relevant to the Secretary's determination.

"(c) The provisions of subsection (b) shall not apply to applications for assistance involving twelve or fewer housing units in a single project or development.".

(b) Section 213(d)(2) of such Act is amended to read as follows:

"(2) In allocating assistance under paragraph (1), the Secretary shall allocate not less than 20 per centum nor more than 25 per centum of the total assistance available in any fiscal year to nonmetropolitan areas, except that beginning on or after October 1, 1987, the Secretary shall allocate not to exceed 50 per centum of such assistance to metropolitan areas and not to exceed 50 per centum of such assistance to nonmetropolitan areas.".

(c) Section 213(d)(3) of such Act is amended by striking out "he" and inserting in lieu thereof "the Secretary".

(d) Section 213(d)(4) of such Act is amended by—

(1) striking out "(a)(1)" in the first sentence and inserting in lieu thereof "(a)";

(2) revising clause (E) to read as follows:

"(E) projects approved by the Secretary to meet lower income housing needs; and"; and

(3) striking out in clause (F) "lower-income" and inserting in lieu thereof "lower income".

TENANT ELIGIBILITY DETERMINATIONS IN RENT SUPPLEMENT PROJECTS

SEC. 226. Section 101 of the Housing and Urban Development Act of 1965 is amended by—

(1) striking out the second sentence of subsection (e)(1); and

(2) striking out subsection (k) and inserting the following in lieu thereof:

"(k) In making tenant selection decisions in accordance with eligibility criteria and procedures established under subsection (e)(1) of this section, the project owner shall give priority to individuals or families who are occupying substandard housing, are paying more than 50 per centum of family income for rent, or are involuntarily displaced at the time they are seeking housing assistance under this section.".

REPEAL OF REQUIREMENT FOR SIGNIFICANT COMMUNITY REPRESENTATION ON GOVERNING BOARDS OF SECTION 202 PROJECTS

SEC. 227. Section 202(d)(2) of the Housing Act of 1959 is amended by striking out "(B) which has" and all that follows through "and (C)" and inserting in lieu thereof "and (B)".

TECHNICAL AMENDMENTS TO THE UNITED STATES HOUSING ACT OF 1937

SEC. 228. (a) Section 6(c)(4)(A) of the United States Housing Act of 1937 is amended by striking out "or are

paying more than 50 per centum of family income for rent" and inserting ", are paying more than 50 per centum of family income for rent," after "substandard housing".

(b) Sections 6(k) (4) and (5) of such Act are each amended by striking out "his" and inserting in lieu thereof "their".

TITLE III—PROGRAM AMENDMENTS AND EXTENSIONS

Part A—Federal Housing Administration

EXTENSION OF FEDERAL HOUSING ADMINISTRATION MORTGAGE INSURANCE PROGRAMS

Sec. 301. (a) The first sentence of section 2(a) of the National Housing Act is amended by striking out "1985" and inserting in lieu thereof "1987".

(b) Section 217 of such Act is amended by—

(1) inserting "section 222, section 232," after "section 221,";

(2) inserting "section 242," after "section 236,";

(3) striking out "1985" and inserting in lieu thereof "1987"; and

(4) inserting "made on or" before "before that date".

(c)(1) The fifth sentence of section 221(f) of such Act is amended by—

(1) striking out "1985" and inserting in lieu thereof "1987"; and

(2) inserting "made on or" before "before that date".

(d) Section 222 of such Act is amended by adding at the end thereof the following new subsection:

"(h) No mortgage may be insured under this section after September 30, 1985, except pursuant to a commitment to insure made on or before that date.".

(e) Section 232 of such Act is amended by adding at the end thereof the following new subsection:

"(j) No mortgage may be insured under this section after September 30, 1985, except pursuant to a commitment to insure made on or before that date.".

(f) Section 242 of such Act is amended by adding at the end thereof the following new subsection:

"(i) No mortgage may be insured under this section after September 30, 1985, except pursuant to a commitment to insure made on or before that date.".

(g) Section 244(d) of such Act is amended by—

(1) striking out "1985" and inserting in lieu thereof "1987"; and

(2) inserting "on or" before "before that date.".

(h) Section 244(h) of such Act is amended by striking out "1985" and inserting in lieu thereof "1987".

(i) The last sentence of section 245(a) of such Act is amended by—

(1) striking out "1985" and inserting in lieu thereof "1987"; and

(2) striking out "entered into prior to" and inserting in lieu thereof "made on or before".

(j) The last sentence of section 1002(a) is amended by—

(1) striking out "1985" and inserting in lieu thereof "1987"; and

(2) striking out "issued" and inserting in lieu thereof "made on or".

MISCELLANEOUS AMENDMENTS

SEC. 302. (a) Section 232(i)(2)(B) of the National Housing Act is amended to read as follows:

"(B) bear interest at such rate as may be agreed upon by the mortgagor and the mortgagee;".

(b) Section 235 of such Act is amended by—

(1) inserting in subsection (m) "made on or" before "before that date"; and

(2) striking out in the last sentence of subsection (q)(1) "entered into prior to" and inserting in lieu thereof "made on or before".

(c) The last sentence of section 236(i)(1) of such Act is amended by striking out "(h)" and inserting in lieu thereof "(f)(4)".

(d) Section 247(a)(2) of such Act is amended by striking out "Mortgagor" and inserting in lieu thereof "mortgagor".

(e) Section 248 of such Act is amended by—

(1) striking out in subsection (a)(1) "lands" and inserting in lieu thereof "land";

(2) striking out in subsection (a)(2) "lands"; and

(3) striking out "tribal or trust land" in subsection (d) and inserting in lieu thereof "trust or otherwise restricted land".

(f) Section 253 of such Act is amended by—

(1) striking out the fourth sentence of subsection (b) and inserting in lieu thereof the following: "For purposes of this section, the term 'net appreciated value' means the amount by which the sales price of the property (less the mortgagor's selling costs) exceeds the actual project cost after completion, as approved by the Secretary.";

(2) striking out in the first sentence of subsection (c) "204" and inserting in lieu thereof "207"; and

(3) striking out the last sentence of subsection (c) and inserting in lieu thereof the following: "The term 'original principal face amount of the mortgage' as used in section 207 shall not include the mortgagee's share of net appreciated value.".

(g) The last sentence of section 809(f) of such Act is amended by inserting "made on or" before "before such date".

(h) The first sentence of section 810(h) of such Act is amended by—

(1) striking out "(exclusive of" and all that follows through "207" and inserting in lieu thereof "at such rate as may be agreed upon by the mortgagor and the mortgagee"; and

(2) striking out before the period at the end thereof ", and shall bear interest at not to exceed the rate applicable to mortgages insured under section 203".

(i) The last sentence of section 810(k) of such Act is amended by inserting "made on or" before "before such date".

(j) The last sentence of section 1101(a) of such Act is amended by striking out "issued" and inserting in lieu thereof "made on or".

(k) Section 482 of the Housing and Urban-Rural Recovery Act of 1983 is amended by striking out "such Act" and inserting in lieu thereof "the National Housing Act".

EXPANDED AUTHORITY FOR SETTING INSURANCE PREMIUM CHARGES ON TITLE I LOANS

SEC. 303. Section 2(f) of the National Housing Act is amended by striking out "The Secretary" and all that follows through "such premium charge" the second place it appears and inserting in lieu thereof the following: "The Secretary shall fix one or more premium charges for the insurance granted under this section, but such charge or charges for

any loan, advance of credit, or purchase shall not exceed an aggregate amount equivalent to one per centum per annum of the net proceeds of such loan, advance of credit, or purchase for the term of the obligation. Such premium charge or charges".

MORTGAGES ON HAWAIIAN HOMELANDS AND INDIAN LANDS TO BE OBLIGATIONS OF THE GENERAL INSURANCE FUND

SEC. 304. (a) Section 247 of the National Housing Act is amended by adding the following new subsection at the end thereof:

"(d) Notwithstanding any other provision of this Act, the insurance of a mortgage using the authority contained in this section shall be the obligation of the General Insurance Fund created pursuant to section 519 of this Act. The mortgagee shall be eligible to receive the benefits of insurance as provided in section 204 of this Act with respect to mortgages insured pursuant to this section, except that all references in section 204 to the Mutual Mortgage Insurance Fund or the Fund shall be construed to refer to the General Insurance Fund, and all references in section 204 to section 203 shall be construed to refer to the section under which the mortgage is insured.".

(b) Section 248 of the National Housing Act is amended by—

(1) redesignating subsections (f), (g), and (h) as subsections (g), (h), and (i), respectively, and inserting after subsection (e) the following new subsection:

"(f) Notwithstanding any other provision of this Act, the insurance of a mortgage using the authority contained in this section shall be the obligation of the General Insurance Fund created pursuant to section 519 of this Act. The mortgagee shall be eligible to receive the benefits of insurance as provided in section 204 of this Act with respect to mortgages insured pursuant to this section, except that all references in section 204 to the Mutual Mortgage Insurance Fund or the Fund shall be construed to refer to the General Insurance Fund, and all references in section 204 to section 203 shall be construed to refer to the section under which the mortgage is insured."; and

(2) striking out in the last sentence of subsection (g)(3) and the first sentence of subsection (g)(5), as such subsections were redesignated by paragraph (1), "insurance fund" each place it appears and inserting in lieu thereof "General Insurance Fund".

REPEAL OF REQUIREMENT TO PUBLISH PROTOTYPE HOUSING COSTS FOR ONE- TO FOUR-FAMILY DWELLING UNITS

SEC. 305. The Housing and Community Development Act of 1977 is amended by striking out section 904.

AUTHORITY FOR INCREASED MORTGAGE LIMITS FOR MULTIFAMILY PROJECTS IN HIGH-COST AREAS

SEC. 306. Section 207(c)(3), the second proviso of section 213(b)(2), the first proviso of section 220(d)(3)(B)(iii), section 221(d)(3)(ii), section 221(d)(4)(ii), section 231(c)(2) and section 234(e)(3) of the National Housing Act are each amended by striking out "not to exceed 75 per centum" and all that follows through "involved) in such an area" and inserting in lieu thereof the following: "not to exceed 110 per centum in any geographical area where the Secretary finds that cost levels so require and by not to exceed 140 per centum where the Secretary determines it necessary on a project-by-project basis, but in no case may any such increase exceed 90 per centum where the Secretary determines that a mortgage purchased or to be purchased by the Government National Mortgage Association in implementing its special assistance functions under section 305 of this Act (as such section existed immediately before November 30, 1983) is involved".

DOUBLE DAMAGES REMEDY FOR UNAUTHORIZED USE OF MULTIFAMILY HOUSING PROJECT ASSETS AND INCOME

SEC. 307. (a) This section may be cited as the "Civil Recovery Double Damages Act".

(b)(1) The Secretary of Housing and Urban Development (hereafter referred to in this section as the "Secretary") may request the Attorney General to bring an action in a

United States district court to recover any assets or income used by any person in violation of (A) a regulatory agreement that applies to a multifamily project whose mortgage is insured or held by the Secretary under title II of the National Housing Act, or (B) any applicable regulation. For purposes of this section, a use of assets or income in violation of the regulatory agreement or any applicable regulation shall include any use for which the documentation in the books and accounts does not establish that the use was made for a reasonable operating expense or necessary repair of the project and has not been maintained in accordance with the requirements of the Secretary and in reasonable condition for proper audit.

(2) For purposes of a mortgage insured or held by the Secretary under title II of the National Housing Act, "any person" shall mean any person or entity which owns a project, as identified in the regulatory agreement, including but not limited to any stockholder holding 25 per centum or more interest of a corporation that owns the project; and beneficial owner under any business or trust; any officer, director, or partner of an entity owning the project; and any heir, assignee, successor in interest, or agent of any owner.

(c) The Attorney General, upon request of the Secretary, shall have the exclusive authority to authorize the initiation of proceedings under this section. Pending final resolu-

tion of any action under this section, the court may grant appropriate temporary or preliminary relief, including restraining orders, injunctions, and acceptance of satisfactory performance bonds, to protect the interests of the Secretary and to prevent use of assets or income in violation of the regulatory agreement and any, applicable regulation and loss of value of the realty and personality involved.

(d) In any judgment favorable to the United States entered under this sesction, the Attorney General may recover double the value of the project's assets and income that the court determines to have been used in violation of the regulatory agreement or any applicable regulation, plus all costs relating to the action, including but not limited to reasonable attorney and auditing fees. Notwithstanding any other provision of law, the Secretary may apply the recovery, or any portion of the recovery, to the project or to the applicable insurance fund under the National Housing Act, or deposit it in miscellaneous receipts of the Treasury of the United States, as the Secretary determines is appropriate.

(e) Notwithstanding any other statute of limitations, the Secretary may request the Attorney General to bring an action under this section at any time up to and including six years after the latest date that the Secretary discovers any use of project assets and income in violation of the regulatory agreement or any applicable regulation.

(f) The remedy provided by this section is in addition t any other remedies available to the Secretary or the Unite States.

Part B—Other Programs

RESEARCH AUTHORIZATION

Sec. 311. The second sentence of section 501 of th Housing and Urban Development Act of 1970 is amended b striking out "and such sums as may be necessary for fisca year 1985" and inserting in lieu thereof the following: "no to exceed $16,900,000 for fiscal year 1985, not to excee $18,900,000 for fiscal year 1986, and such sums as may be necessary for fiscal year 1987".

FAIR HOUSING INITIATIVES PROGRAM

Sec. 312. (a) The Secretary of Housing and Urban Development (hereafter referred to in this section as the "Secretary") is authorized to make grants to, or to enter into contracts or cooperative agreements with, State or local governments or their agencies, public or private nonprofit organizations or institutions, or other public or private entities that are formulating or carrying out programs to prevent or eliminate discriminatory housing practices, to develop, implement, carry out, or coordinate:

(1) programs or activities designed to obtain enforcement of the rights granted by Title VIII of Public Law 90-284, as amended (hereafter referred to in this section as "Title VIII"), or by State or local laws that

provide rights and remedies for alleged discriminatory housing practices that are substantially equivalent to the rights and remedies provided in Title VIII, through such appropriate judicial or administrative proceedings (including informal methods of conference, conciliation, and persuasion) as are available therefor; and

(2) education and outreach programs designed to inform the public concerning rights and obligations under the laws referred to in paragraph (1).

(b) There are authorized to be appropriated for the purposes of this section and for necessary expenses of the Secretary in carrying out such purposes, including program evaluations, an amount not to exceed $10,000,000 for each of the fiscal years 1986 and 1987. Any amounts appropriated under this section shall remain available through the end of the fiscal year after the fiscal year for which they were originally made available.

REPEAL OF LEGISLATIVE REVIEW REQUIREMENTS APPLICABLE TO THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT REGULATIONS

SEC. 313. (a) Section 7(o) of the Department of Housing and Urban Development Act is hereby repealed.

(b) Section 506(e) of the Solar Energy and Energy Conservation Bank Act is amended by striking out ", subject to

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the provisions of section 7(o) of the Department of Housing and Urban Development Act (42 U.S.C. 3535(o)),".

MANUFACTURED HOMES FEES

SEC. 314. Section 620 of the National Manufactured Housing Construction and Safety Standards Act of 1974 is amended by striking out the heading and all that follows and inserting in lieu thereof the following:

"FEES

"SEC. 620. The Secretary may establish and impose on manufactured home manufacturers, distributors, and dealers such reasonable fees as may be necessary to offset the costs (including the costs of contractors and State agencies) of carrying out the Secretary's responsibilities under this title.".

DELETION OF MAXIMUM FEE FOR INTERSTATE LAND SALES REGISTRATION

SEC. 315. section 1405(b) of the Interstate Land Sales Full Disclosure Act is amended by striking out "a fee, not in excess of $1,000," and inserting in lieu thereof "a reasonable fee,".

TECHNICAL AMENDMENTS TO THE SOLAR ENERGY AND ENERGY CONSERVATION BANK ACT

SEC. 316. (a) Section 520(b)(4)(A) of the Solar Energy and Energy Conservation Bank Act is amended by striking out "12" and inserting in lieu thereof "10".

(b) Sections 506(f)(1), 509(b)(2)(E), 515(b)(1)(A)(iii), 515(b)(1)(B), 515(b)(1)(C)(ii), 515(b)(1)(D), and 515(b)(2) of

such Act are amended by striking out "38" and "44C" wherever they appear and inserting in lieu thereof "23" and "38", respectively.

TITLE IV—RENTAL REHABILITATION AND DEVELOPMENT GRANTS

RENTAL REHABILITATION AND HOUSING DEVELOPMENT GRANT PROGRAMS

SEC. 401. (a) The section heading of section 17 of the United States Housing Act of 1937 is amended to read as follows: "RENTAL REHABILITATION GRANTS".

(b) Section 17(a) of such Act is amended by—

(1) striking out paragraph (1) and inserting in lieu thereof the following:

"(1) REHABILITATION GRANTS.—The Secretary is authorized to make rental rehabilitation grants to help support the rehabilitation of privately owned real property to be used for primarily residential rental purposes in accordance with the provisions of this section."; and

(2) striking out paragraph (3).

(c) Section 17(b)(1) of such Act is amended to read as follows:

"(1) FORMULA ALLOCATION.—Of the amount available in any fiscal year for rehabilitation grants under this section, the Secretary shall allocate amounts

to cities having populations of 50,000 or more, urban counties, and States for use as provided in subsection (d), on the basis of a formula which shall be contained in a regulation. This formula shall take into account objectively measurable conditions in such jurisdictions, including such factors as low-income renter population, overcrowding of rental housing, the extent of physically inadequate housing stock, and such other objectively measurable conditions as the Secretary deems appropriate to reflect the need for assistance under this section.".

(d) Section 17(b)(2) (A) and (B) and (c)(1)(A) of such Act are amended by striking out "subsection (e)" each place it appears and inserting in lieu thereof "subsection (d)".

(e) The subsection caption of section 17(c) of such Act is amended to read as follows: "RENTAL REHABILITATION GRANTS.".

(f) Section 17(c)(2) (C), (E), (F), and (G) of such Act and section 17(e) of such Act, as redesignated by subsection (g) of this section, are amended by striking out "structure" and "structures" each place they appear and inserting in lieu thereof "project" and "projects", respectively.

(g) Section 17 of such Act is amended by striking out subsections (d) and (j) and redesignating the remaining subsections accordingly.

(h) Section 17(d) of such Act, as redesignated by subse tion (g) of this section, is amended by—

(1) striking out in the second sentence “, b may” and all that follows through the end of that se tence and inserting in lieu thereof a period; and

(2) striking out paragraph (3) and redesignating paragraph (4) as paragraph (3).

(i) Section 17(h)(1) of such Act, as redesignated by subsection (g) of this section, is amended by striking out “or development” each place it appears.

(j) Section 17(i) of such Act, as redesignated by subsection (g) of this section, is amended by—

(1) striking out paragraphs (1) and (2) and redesignating the remaining paragraphs accordingly;

(2) striking out paragraph (3), as redesignated by paragraph (1) of this subsection, and inserting in lieu thereof the following:

“(3) The term ‘grantee’ means—

“(A) any city or urban county receiving resources under subsection (b);

“(B) any State administering a rental rehabilitation program, as provided in subsection (d)(1); and

"(C) any unit of general local government that receives assistance from the Secretary, as provided in subsection (d)(2);"; and

(3) striking out paragraph (5), as redesignated by paragraph (1) of this subsection, and inserting in lieu thereof the following:

"(5) the term 'unit of general local government' means any city, county, town, township, parish, village, or other general purpose political subdivision of a State.".

(k) Section 17(j) (1) and (2) of such Act, as redesignated by subsection (g) of this section, is amended by striking out "subsection (e)(1)" each place it appears and inserting in lieu thereof "subsection (d)(1)".

(l)(1) On or after the effective date of this section, no housing development grant may be made under section 17 of such Act, except pursuant to a reservation of funds made by the Secretary of Housing and Urban Development before that date.

(2) Any housing development grant made under section 17, as it existed immediately before the effective date of this section, shall continue to be governed by the provisions of such section 17.

(3) Any amounts that, in the absence of this section, would have been available for reservation for housing devel-

opment grants under section 17 of such Act on or after the effective date of this section shall be rescinded.

(m) This section shall become effective on the later of October 1, 1985 or the date of enactment of this Act.

AMENDMENTS TO THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1974

SEC. 402. (a) Section 104(f)(4) of the Housing and Community Development Act of 1974 is amended by inserting after "106(d)" the following: "or States distributing rental rehabilitation resources to units of general local government as provided in section 17(d)(1)(B) of the United States Housing Act of 1937".

(b) Section 106(d)(3)(A) of such Act is amended by striking out "section 17(e)(1)" and inserting in lieu thereof "section 17(d)(1)".

(c) Section 107(d) of such Act is amended by—

(1) striking out in paragraph (1) "and no assistance may be made available under section 17 of the United States Housing Act of 1937 unless the grantee" and inserting in lieu thereof "unless the applicant"; and

(2) striking out "grantee or" before "applicant" in paragraph (3).

(d) Section 817 of such Act is amended by—

(1) inserting "and" after "1966,"; and

(2) striking out ", and section 17 of the United States Housing Act of 1937".

CONFORMING AMENDMENTS TO THE NATIONAL HOUSING ACT

SEC. 403. (a) Sections 223(f)(5) and 244(h) of the National Housing Act are amended by striking out "or developed" each place it appears.

(b) Section 223(f)(5)(A) of such Act is amended by striking out "or development".

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99TH CONGRESS
1ST SESSION

S. 591

To amend section 119(d) of the Housing and Community Development Act of 1974.

IN THE SENATE OF THE UNITED STATES

MARCH 5 (legislative day, FEBRUARY 18), 1985

Mr. GRASSLEY (for himself, Mr. ABDNOR, Mr. ZORINSKY, Mr. PACKWOOD, Mr. THURMOND, Mr. LUGAR, Mrs. HAWKINS, Mrs. KASSEBAUM, Mr. DENTON, and Mr. EXON) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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A BILL

To amend section 119(d) of the Housing and Community Development Act of 1974.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 119(d)(1) of the Housing and Community Development Act of 1974 is amended to read as follows:

"(d)(1) Except in the case of a city or urban county eligible under subsection (b)(2), the Secretary shall establish selection criteria for a national competition for grants under this section which must include—

"(A) weighted at 15 percent, the comparative degree of economic distress among applicants, as measured (in the case of a metropolitan city or urban county) by the differences in the extent of growth lag and the extent of poverty in the metropolitan city or urban county;

"(B) weighted at 15 percent, other factors determined to be relevant by the Secretary in assessing the comparative degree of economic deterioration in cities and urban counties; and

"(C) weighted at 70 percent, at least the following other criteria: the extent to which the grant will stimulate economic recovery by leveraging private investment; the number of permanent jobs to be created and their relation to the amount of grant funds requested; and the proportion of permanent jobs accessible to lower income persons and minorities, including persons who are unemployed.".

"(b) Section 119 of such Act is amended by adding at the end thereof the following:

"(s) The amount of any one grant made under this section to a city or urban county may not exceed—

"(1) $5,000,000 in the case of a small city or a city or urban county in a primary metropolitan statical area with a population of not more than 100,000;

"(2) $10,000,000 in the case of a city or urban county in a primary metropolitan statical area with a population of more than 100,000 but not more than 300,000; and

"(3) $15,000,000 in the case of a city or urban county in a primary metropolitan statical area with a population of more than 300,000.".

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Senator HECHT. I would like to welcome our first panel, representing the National Governors' Association [NGA]. We have Mr. Dick Geltman. I would especially like to welcome Thalia Dondero, chairman of the board of county commissioners, Clark County, NV. Thalia, welcome to Washington.

Ms. DONDERO. Thank you.

Senator HECHT. It wasn't too long ago at some of our meetings, you were sitting up here and I was sitting down there talking to you.

Before we begin, Senator Proxmire, do you have an opening statement?

Senator PROXMIRE. No, thank you, Mr. Chairman.

Senator HECHT. Do you want to sit over here?

Senator PROXMIRE. Well, Senator Riegle may be coming. I'll sit over there a little later on.

Senator HECHT. All right. This is Senator Proxmire.

Well, without further ado, let us begin. Who is the opening witness?

Mr. GELTMAN. I think I am, Senator.

Senator HECHT. Fine. Will you proceed?

STATEMENT OF RICHARD B. GELTMAN, COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGICAL INNOVATION, NATIONAL GOVERNORS' ASSOCIATION

Mr. GELTMAN. Mr. Chairman and Senator Proxmire, I appreciate the opportunity to——

Senator HECHT. Excuse me. We're asking you to limit it, summarize your remarks and hold it to about 10 minutes.

Mr. GELTMAN. That would be fine. And I have provided my written comments, which I hope will be submitted for the record.

I appreciate the opportunity that you have provided the National Governors' Association to testify before you. In my statement this morning, I would like to address four issues which I believe are important in your deliberations.

One, is the NGA's position on the Federal budget.

Two, is the impact of the administration's 1986 budget request on State governments.

Three, the NGA's position on Federal housing programs.

And, four, the NGA's position on community and economic development programs.

NGA'S POSITION ON THE FEDERAL BUDGET

Let me first then address the Federal budget position. At its most recent winter meeting, NGA adopted a bipartisan comprehensive position on the Federal budget in response to the huge Federal deficit.

And let me summarize the results of that policy position that was adopted after much debate and consternation. That is, we feel that the Federal budget deficit has a major impact not only nationally but also on State economies. And it is of particular importance to us that in that budget position, we call on Congress to enact a freeze on Federal spending, that shares the burden among national

defense and domestic spending, and that does not burden already hard pressed, lower income Americans.

Specifically, national defense appropriations in 1986 should be limited to the 1985 level plus inflation. And for the 1986–90 period, national defense ought to be limited to 1 to 3 percent in real terms.

The growth in other entitlement and mandatory spending programs would also be restrained. Part of this restraint under our policy would be caused by a 1-year freeze of all cost-of-living adjustments, including Social Security.

Furthermore, the NGA policy position urges the Congress to review the Medicare, Federal pensions, farms, and Social Security programs to determine what reforms can be enacted in these non-means tested entitlements.

Reforms would be designed to increase the long-term controllability of a Federal budget while continuing to protect low-income beneficiaries. Selected means tested entitlements are to receive full funding under the National Governors' Association position. We believe that these programs have already contributed their share of budget reductions.

In terms of the subject of the committee's hearing, the policy calls for the freezing of the 1986 appropriation at the 1985 level for nondefense discretionary spending, and for the 1987–90 period, this component should be increased at one-half the rate of inflation.

After the budget freeze and reforms have been enacted, it may be necessary to increase revenues to reduce the deficit to the NGA goal of 1 percent of GNP by 1990.

Let me state that this is not inconsistent at all with the direction to which the Senate Budget Committee has gone, and we certainly commend the efforts of the Senate Budget Committee in taking an action which we think will lead to a reduction in the Federal deficit.

The Federal budget position that we've taken, I think, is consistent with a federalism philosophy that we have. Our budget position is not a matter of merely pulling some numbers out of the bag, or trying to save arbitrarily this program and that program. I think there's a philosophy behind what it is the National Governors' Association is trying to do. And that is a philosophy of federalism which indicates that the Federal Government ought to give primary emphasis toward the safety social net programs, to the security programs that would take care of the poor and the disadvantaged.

And when we get into the next discussion of the impact on State governments and our priorities, I think you will see that our federalism philosophy is reflected in our recommendations to you.

That is, it is our suggestion that the programs that ought to receive the highest priority are those programs that are targeted to low-income individuals, and those programs that are targeted to low-income communities.

Now let me turn, if I may, in the context then of the overall Federal budget deficit where we place priorities. And I think it's important to realize that we are willing to state before you what our priorities are, what it is that we want to protect, and, at the same time, tell you what it is that we're not attempting to give the same kind of priority.

And so I think that the Governors have shown an indication that they are willing to, themselves, face the hard choices and help you make some of those hard choices as well. The Governors have expressed their willingness both in February when they were here, and, subsequently, to help you in any way they can to reduce this budget deficit and in a way that the economy will be in much better shape at the end of that process.

We commend the administration for attempting to reduce the deficit to 3 percent of GNP in 1988, which is in line with our policy for deficit reduction.

Regarding the allocation of cuts, however, the administration requests substantially larger cuts in the nondefense discretionary portion, and far less in the national defense area and middle income entitlement programs that the Governors' policy proposes.

Furthermore, we would have to take great exception to the proposed cut in Medicaid. Once again, an indication of where our priorities are, that poor people, who are least able to afford the cuts, are the ones who should not be burdened by what has been proposed.

BUDGET CUTS NOT SHARED EQUALLY

Overall, we do not believe the administration's budget shares the burden equally across defense and nondefense spending. To make all the budget cuts in the nondefense discretionary portion of the budget merely puts off the real problem another year. All the expenditure growth this year, as well as that projected for the future, is in national defense and middle income entitlements.

These are the components which must be restrained and must share in the burden.

With respect to specific budget cuts the administration has recommended, we oppose the Medicaid cut and the imposition of caps of administrative costs in AFDC, food stamps and Medicaid; the elimination of funding for the Work Incentive Program, cuts in child nutrition, State energy programs and employment training, the huge reductions—and this is what this committee is addressing specifically today—in aid to local governments, including general revenue sharing, mass transit, housing, Economic Development Administration, UDAG, community development block grants, Farmers Home Administration rural development grants, and EPA construction grants.

And, finally, the large cuts in the farm programs at a time when the farm economy is facing such a difficult economic outlook.

So let me say that we have listed some priorities, but there is clearly a number of domestic programs which we have not listed as priorities. So that's not to say that we are against cutting anything. We are saying, in fact, for the programs that I've listed that are in the nonmeans-tested discretionary domestic programs, we're looking for a freeze, a real freeze at 1985 levels for 1986. We're not talking about inflationary adjustments, we're not talking about any real increase.

The things we have not indicated should be protected in whole are Function 150 International Affairs, Function 250 General Science, Space and Technology, Function 270 Energy, Budget Function

350—we've only dealt with some of the agricultural programs. Function 650, Social Security; Function 700, Veterans Benefits and Services; Function 750, Administration of Justice; and Function 800, General Government.

There are a large number of areas that we do not say are high priority. So that what we say to you is that there are some priorities, and those priorities ought to be dealing with low-income folks and low-income communities.

Now let me say that there will be cuts and we support cuts because we're looking toward reduction of the Federal deficit. But, one thing I think we ought to make clear is that even though the States are in better shape than they were 1 year or 2 years ago, the fiscal condition of the States does not permit Governors the luxury of substituting State funds for Federal spending in areas of Federal funds reductions.

While the fiscal condition of States will be somewhat stronger than that experienced in the recent past, the surpluses currently projected are quite modest, given the economic and other uncertainties facing State governments.

The recent survey conducted by the National Governors' Association and National Association of State Budget Officers indicates that States ending balance for fiscal year 1985 will be approximately $5.2 billion, or 2.9 percent of spending during that year. About 50 percent of the entire surplus is in only 5 States, with 28 States having balances below 3 percent.

What we're trying to say very clearly is that we support cuts, but when the Federal Government makes those cuts, they cannot expect that the States are going to be able to pick up—or the local governments, for that matter—be able to pick up those programs that are cut.

So that there may very well be a situation that when those cuts are made, that those programs are no longer going to be in existence.

And so I think we ought to be aware that when we face these hard decisions, it would make some sense to make those decisions in the overall context of what ought to be a Federal role and what ought to be a State role, because we cannot expect that these Federal programs are going to be shifted over and be picked up by State and local governments.

SPECIFIC PROGRAMS

Let me address then specifically the programs before us. One is housing programs.

Senator HECHT. I think your time is up, so summarize it in the next minute, please.

Mr. GELTMAN. OK. Let me say that in terms of housing programs, we are supportive of a freeze of housing programs at the 1985 levels. If you take a look at the tax expenditure side, there's over $40 billion in tax subsidies to basically middle- and high-income people.

On the other hand, the direct subsidy programs are primarily targeted to low-income people. It is they who deserve and need the help of the Federal Government. And it's our feeling that the hous-

ing programs ought to be preserved. We feel that this action could add about 100,000 additional households under HUD programs, and 80,000 new households to the principal Farmers Home Loan Programs.

Similarly, we support the Community and Economic Development Programs at 1985 levels. We think that's a very cost-effective method of going forward because not only are you on the one hand trying to reduce expenditures, on the other hand, you're trying to increase revenues. The programs I've listed, which are the Community Development Block Grant, the UDAG, and the Farmers Home Community Development Programs, are all programs that have proven both to be effective as well as to be revenue generators.

So at the same time that we are trying to reduce the deficit by cutting back on programs which end up costing the Federal Government money, these are programs which, on the other hand, are going to increase revenues, or are cost effective.

Finally, let us say that we are very supportive of mass transit. Mass transit is like housing—Federal housing programs primarily benefit low- and moderate-income people. Many of the people who use mass transit are transit captive; that is, they do not have automobiles. They have no other way of getting around to their jobs, to their families to conduct their business; and, therefore, it is our belief that these programs ought to be retained at this level.

Let me conclude. OK.

Senator HECHT. Any other comment?

Mr. GELTMAN. No, I think that summarized then my comments. I'd be glad to entertain any questions.

[The complete prepared statement follows:]

TESTIMONY OF
RICHARD B. GELTMAN
STAFF DIRECTOR
COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGICAL INNOVATION
NATIONAL GOVERNORS' ASSOCIATION

Mr. Chairman:

I would like to open my remarks by thanking you for inviting a representative of the National Governors' Association to testify before you today on the fiscal year 1986 budget and authorization levels for the mass transit, housing, community and economic development programs. In my statement this morning I would like to address four issues which I believe are important in your deliberations:

1. the Governors' position on the federal budget,
2. the impact of the Administration's 1986 budget request on state governments,
3. the Governors' position on federal housing programs, and
4. the Governors' position on community and economic development programs.

Federal Budget Position

The National Governors' Association at its recent Winter Meeting adopted a bipartisan comprehensive position on the federal budget in response to the huge federal deficit. If the deficit is not substantially reduced soon, then lower economic growth over the next two decades can be anticipated. Without action, a deep and long recession or a return to high inflation or both may occur.

The NGA position on the federal budget, which is attached, calls on the Congress to enact a freeze on federal spending that shares the burden among national defense and domestic spending and that does not burden already hard pressed lower income Americans.

Specifically, national defense appropriations in 1986 should be limited to the 1985 level plus inflation. For the 1986-1990 period, national defense spending would be allowed to increase 1-3 percent in real terms. The growth in other entitlement and mandatory spending programs would also be restrained. Part of this restraint would be caused by a one year freeze in all cost of living adjustments, including Social Security. Furthermore, the NGA policy urges the Congress to review the Medicare, federal pensions, farm, and Social Security programs to determine what reforms can be enacted in these non-means tested entitlements. The reforms would be designed to increase the long-term controllability of the federal budget while continuing to protect low-income beneficiaries. Selected means-tested entitlements* are assumed to receive full funding in the NGA position. We believe that these programs have already contributed their share of budget reductions. In terms of the subject of this Committee's hearing, the policy calls for freezing the 1986 appropriation at the 1985 level for non-defense discretionary spending. For the 1987-1990 period this component should be increased at one-half the rate of inflation. After the budget freeze and reforms have been enacted, it may be necessary to increase revenues to reduce the deficit to the NGA goal of 1 percent of GNP by 1990.

The Impact of the Administration's 1986 Budget on State Governments

We commend the Administration for attempting to reduce the deficit to 3 percent of GNP in 1988, which is in line with our policy for deficit reduction. Regarding the allocation of cuts, however, the Administration requests substantially larger cuts in the

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* AFDC, Food Stamps, Title XX, Medicaid, SSI, child nutrition, and child welfare services

non-defense discretionary portion and far less in the national defense and middle income entitlement programs than the Governors' policy proposes. Furthermore, we would have to take great exception to the proposed cut in Medicaid.

Overall, we do not believe that the Administration's budget shares the burden equally across defense and non-defense spending. With respect to national defense, spending has already increased 61 percent between 1981 and 1985. The President is now proposing another 13 percent increase this year. It appears that some slowing of this rate of increase is appropriate to maintain the cost-effectiveness in weapons systems and other procurement. Non-defense discretionary spending has already been reduced 20 percent in real terms over the last five years, and the President is proposing huge cuts again in this area. Given that this category is the investment portion of the budget (education, job training, research and development, etc.), we do not believe additional cuts are wise. While a freeze in nominal dollars is acceptable, we seriously question whether further cuts can be made without heavy consequences.

To make all the budget cuts in the non-defense discretionary portion of the budget merely puts off the real problem another year. All the expenditure growth in the budget this year, as well as that projected for the future, is in national defense and middle-income entitlements. These are the components which must be restrained and must share in the burden.

Turning now to the impact of the Administration's 1986 budget on the states, NGA thinks that the most dramatic aspect of the budget is the absence of a federalism philosophy and analysis to accompany the substantial shifts that are proposed. We are discussing the most important document on the federal system that the Administration will produce this year, and yet there has been no consultation with Governors in an

attempt to set common priorities and goals. There is no discussion of the appropriate federal role in providing services to our citizens. There is no plan to ensure that the transition from current spending levels to the proposed spending amounts is accomplished smoothly.

With respect to the specific budget cuts that the Administration has recommended, we oppose:

- the Medicaid cut and the imposition of caps on administrative costs in AFDC, Food Stamps and Medicaid;

- the elimination of funding for the Work Incentive Program, the cuts in child nutrition, state energy programs and employment and training;

- the huge reductions in aid to local governments including general revenue sharing, mass transit, housing, economic development administration, UDAG, Community development block grant, Farmers Home Administration rural development grants and EPA construction grants; and

- the large cuts in the farm programs at a time when the farm economy is facing such a difficult economic outlook.

The fiscal condition of the states does not permit Governors the luxury of substituting state funds for federal spending in these high priority programs. While the fiscal condition of states in 1985 will be somewhat stronger than that experienced in the recent past, the surpluses currently projected are quite modest given the economic and other uncertainties facing state governments. A recent survey undertaken by the

National Governors' Association and the National Association of State Budget Officers indicates that the states' ending balance for fiscal year 1985 will be approximately $5.2 billion or only 2.9 percent of spending during that year. About 50 percent of the entire surplus is in only 5 states, with 28 states having balances below 3.0 percent.

Housing Programs

It is our belief that it is a federal responsibility to assure that low and moderate income people are provided "a decent home and a suitable living environment." That national housing goal is as important now as it was in 1949. Those individuals with the greatest needs should be supported by a social safety net, a part of which is the availability of safe, sanitary and affordable housing.

The Administration's 1986 budget contends that recent increases in assistance and general budgetary stringency warrant terminating the FmHA's housing programs and imposing a two-year moratorium on new commitments under HUD's programs. We disagree. NGA favors Congress establishing budget authority and lending limits in 1986 at the 1985 levels. This action could add about 100,000 additional households under HUD programs and 80,000 new households through the principal FmHA loans. Low and moderate income persons are primarily renters. Despite the size of present federal housing expenditures to date, the Congressional Budget Office estimates that present rental assistance commitments are expected to be sufficient to serve only about one-third of all very-low-income renters. Federally subsized mortgages aid only about one in ten of all low- and moderate-income homebuyers in any year. Cutbacks on federal direct expenditure rental housing programs can expect to have a disproportionate affect on the elderly who are major recipients of rental assistance. A large number of elderly people remain in or near poverty, a large share of them face housing problems, and a large number of them are rural.

I am attaching for your information the policy position on housing just adopted by NGA at our Winter Meeting. It provides detailed statements on most of the housing programs you are presently reviewing. Let me summarize four of the major points that are made by the policy position:

1. Governors are aware that some past federal housing programs have been deemed to be too costly, but Congress should not, therefore, abandon its efforts to provide adequate housing for those poor the market place shuts out of affordable shelter. Congress should experiment with new cost efficient programs. It is for this reason that the housing development grant program and the rental rehabilitation grant program should not be jettisoned just as they are being tested. Similarly Section 8 certificates and vouchers should continue to be made available.

2. While we provide strong support for rental subsidies to the low-and moderate-income renter, we have concluded that total reliance on a rental subsidy approach is a flawed policy. New construction of affordable housing for low and moderate income people is needed where rental markets are tight. Where it is possible to rehabilitate existing structures to preserve our nation's housing stock for low-income people, we support the availability of rehabilitation funds.

3. Even though the primary reason for our support of low- and moderate-income housing programs is the provision of basic shelter, we recognize that these programs have a secondary benefit. They play a role in stabilizing families, revitalizing distressed neighborhoods and providing economic development incentives.

4. The Governors support the continuation of mortgage revenue bonds and industrial development bonds for low-income, multi-family rental housing, particularly if there is a moratorium of direct federal expenditure subsidies.

We are encouraged that the Senate Budget Committee has recommended that HUD housing programs be frozen at the 1985 funding levels, but we are disappointed that it chose to call for the elimination of the funding which would go for housing programs now administered by the Farmers' Home Administration.

Community and Economic Development

At the NGA Winter Meeting held last month, the Governors on the Committee on Economic Development and Technological Innovation endorsed the continued funding of the Economic Development Administration (EDA), the Small Business Administration (SBA), Urban Development Action Grants (UDAG), and the Farmers Home Administration's Business and Industrial (B&I) program at fiscal year 1985 levels as well as level funding for the Community Development Block Grant (CDBG) and housing programs. A copy of this resolution is attached. These programs assist our economies to expand and produce revenues that can close the federal deficit gap. Effective federal, state, and local economic development programs are cost effective uses of public funds. They have helped create and retain jobs in the most distressed areas of our states; regions which have not enjoyed the benefits of the recent economic recovery.

The loss of federal community and economic development funds will likely have a great impact on these communities because these programs utilize formulas which target funding to areas of poverty and unemployment. Under the Administration's budget proposal urban areas will experience a 22.7 decrease in CDBG funds and a moratoria of

housing funds at a time when the cost of urban housing is increasing, rental housing units are being lost and the number of homeless is rising. Rural areas are being devastated by the farm crisis which is consuming individual assets and decreasing private sector investment in these regions.

Without these federal economic and community development programs which are slated by the Administration for elimination, moratoria and reduction, our infrastructure will continue to deteriorate and thousands of jobs and investment dollars will be lost.

We commend the Senate Budget Committee for freezing FmHA rural development programs at FY 1985 levels, but we must express concern over its termination of the EDA and Appalachian Regional Commission non-highway programs as well as the draconian reduction in the SBA programs, the 20 percent reduction in the UDAG program and 10 percent reduction in the CDBG program.

Finally, I bring to you concerns raised by the Council of State Community Affairs Agencies (COSCAA) with regard to two present problematic provisions governing the community development block grant program. I am providing a statement of those concerns by COSCAA as an attachment to this testimony.

Conclusion

In summary, Mr. Chairman, the nation's Governors endorse the goal of deficit reduction incorporated in the Administration's budget but believe that national defense and other non-means tested entitlement programs should also share in those reductions. With respect to our own priorities, our biggest concern is with the Medicaid cut, which would be a cost shift from the federal to state governments of more than $17 billion over

the next five years. Second, we are concerned about the Administrative cost caps on AFDC, food stamps and Medicaid as well as the imposition of quality control error rates sanctions and the reduction in WIN programs, child nutrition, highway and state energy conservation programs. Third, the huge reductions in local aid appear to be out of line, given the relative reductions in the rest of the budget. And fourth and finally, we specifically support frozen funding of housing, CDBG, UDAG, EDA, SBA and FmHA housing and rural development programs in 1986 at 1985 levels.

Mr. Chairman, I would be happy to answer any questions that you and the Members of the Committee may have.

National Governors' Association

John Carlin
Governor of Kansas
Chairman

Raymond C. Scheppach
Executive Director

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NGA POSITION ON THE FEDERAL BUDGET

The nation's Governors are deeply concerned about the large federal deficits that are projected over the next five years. These deficits are projected to increase from $215 billion in fiscal year 1984 to $296 billion in 1990 if current policies are continued. We believe it is critical that a major federal deficit reduction program be enacted in 1985 while the economy continues to be strong. Failure to address the problem this year will require stronger measures in the future. Such measures may be extremely difficult to enact if the economy slows.

Our concerns focus on the following areas:

o The economy - Deficits of the magnitude projected (5.3 percent of GNP by 1990) will significantly retard economic growth and productivity over the next decade. First, high interest rates will maintain an over-valued dollar which will continue to restrain United States exports and stimulate imports, thereby reducing growth and contributing to the current international trade deficit of over $120 billion. Second, high interest rates will limit investment in plant and equipment, which will restrict productivity and America's ability to compete internationally over the long-run. Finally, both high interest rates and the high value of the dollar are causing distortions of national priorities and major disruptions in certain sectors of the economy, particularly agriculture and heavy industry. During the next decade, unemployment and other economic disruptions may take place if significant deficit reductions are not attained.

o State fiscal condition - The fiscal condition of states in 1984 was somewhat improved over the very difficult 1982-1983 period, when 44 states raised taxes and 43 reduced spending to balance their budgets. Due to the budget reductions over this period, state spending in 1984 was still below the real level attained in 1981. The 1985 surplus projected for states is $5.3 billion, which represents only 2.9 percent of spending. The financial markets prefer a 5 percent margin to maintain the highest ratings for state bonds. In addition, 50 percent of the balance is expected to be in only five states, with most other states either reporting very small balances or projecting deficits. Furthermore, states that rely heavily on natural resource production or agriculture are witnessing substantial erosion of their tax revenues. Funds available to the states in future years must be used to meet pressing obligations deferred by states because of the recession—infrastructure, education, environmental protection, income security, prison overcrowding and other critical needs. If the federal deficit restrains economic growth, then state revenues will be reduced, and states must reduce services or raise taxes to compensate for lower revenues. States are not in a position to absorb significant new fiscal responsibilities from the federal government.

Accordingly, the Governors urge Congress and the Administration to initiate a four point plan to restore the fiscal position of the United States as follows:

1. Adopt a freeze on federal spending for fiscal year 1986 that shares the burden among national defense and domestic spending and that does not burden already hard pressed lower income Americans. Given that the federal budget problem is now approaching a crisis situation, a freeze on spending is required.

2. Reform major nonmeans tested entitlements and other mandatory spending programs to increase the long-run control of federal spending.

3. After the budget freeze and reforms have been enacted, it may be necessary to increase revenues to reduce the structural deficit.

4. Enact procedural reforms including a balanced budget constitutional amendment.

The combination of the budget freeze and program reforms and the potential revenue increase should be consistent with the long-run goal of attaining a balanced federal budget. Interim goals of reducing the projected deficit to approximately 3 percent of GNP by 1988 and 1 percent by 1990 should be adopted.

Budget Freeze

1. Non-defense discretionary spending: Hold the 1986 appropriation level to the same level as in 1985. For the 1987-1990 period, this component should be increased at one-half the rate of inflation. This category includes programs administered through state and local governments, assistance to business and commerce, veterans programs, health care, environmental regulation, research and development, economic and military assistance to foreign governments, and most of the cost to operate the various branches of the federal government. Funding should be made available for the federal share of superfund, which should be reauthorized this year. Reductions in other programs in this category should be made to accommodate this funding.

2. National defense: Limit national defense appropriations in 1986 to the 1985 level plus inflation. For the 1986-1990 period national defense spending would be allowed to increase 1-3 percent in real terms. Defense spending has increased 61 percent between 1981 and 1985, and some slowing of this rate is appropriate to maintain cost-effectiveness in weapons systems and other procurement.

3. Selected means-tested entitlement programs: Provide full funding for the following programs: AFDC, Food Stamps, Title XX, Medicaid, SSI, child nutrition, and child welfare services. These programs have already been reduced substantially over the last four years and have already contributed their share of budget reductions.

4. Other entitlement and mandatory spending programs: Restrain the growth in these entitlement programs which are projected to increase 33 percent between 1985 and 1990. Included in this category are the medical insurance, Social Security, disability, farm price support and retirement programs funded by the federal government. A one-year freeze on all cost-of-living adjustments should also be enacted.

Long-run Reforms

After the budget freeze has been enacted, the Congress and the Administration should turn their attention to reforms which will increase the cost-effectiveness of entitlement and other mandatory spending programs. Over the long-run the goal should be

to increase the controls over the federal budget. Reforms should include Medicare, federal pensions and farm programs. A new commission should be convened to look at potential long-run reforms in Social Security. It is important that reforms in these programs protect low income beneficiaries.

Revenue Measures

Even after the 1986 budget freeze and long-run reforms are enacted, it may be necessary to raise some additional revenues to attain the interim deficit targets. The revenue increase must be one that does not raise average or marginal tax rates, shares the burden fairly, and can be enacted quickly. State and local tax deductibility should not be singled out for reduction or elimination in any revenue increase.

Another important measure that the federal government could take to help reduce the deficit is to tighten enforcement of the federal tax code. Such action, which has recently been employed in many states with excellent results, would serve not only to ensure payment to the Treasury of needed revenues but would increase public confidence in the fairness of the federal system of taxation. The National Governors' Association urges that the Administration and Congress strengthen the Internal Revenue Service tax enforcement procedures—and increase resources, if necessary to pay for them—as integral to and in conjunction with efforts designed to eliminate the structural deficit.

Procedural Reforms

Procedural changes which have worked in the vast majority of states must be made so that the Administration and Congress can eliminate the deficit by the end of fiscal year 1990. A constitutional amendment requiring a balanced federal budget and providing the President with line item veto authority are needed to insure federal fiscal responsibility.

Budget Targets

In order to assure a commitment to deficit reductions, the Governors urge Congress and the Administration to agree on specific bipartisan deficit targets for each of the next five fiscal years. These deficit targets should represent a downward glide path from approximately 3 percent in 1988 to 1 percent of GNP by 1990. Congress and the President should work together to approve FY 1986 appropriations, tax and reconciliation legislation consistent with the established targets. The ultimate goal which the NGA recommends is the complete elimination of the deficit. Congress and the Administration should adopt a coherent long-term strategy that achieves this ultimate goal and meets the 1990 objective.

Adopted February 26, 1985

HOUSING ISSUES AND NEEDS

The 1949 national policy of "a decent home and a suitable living environment for all Americans" must continue to be a major national priority for the 1980's. The nation is still far from reaching this goal, particularly in the area of affordable housing. Hence, a national housing goal is as important now as it was in 1949. Therefore, Congress should again articulate its commitment to a national housing goal.

The supply of affordable housing in most markets is not adequate to meet the demand; the shortage is particularly acute in the rental housing sector and in regions experiencing rapid population growth. Housing costs have risen faster than incomes, making decent housing unaffordable for many people and raising the costs of subsidy programs. The cost of housing is a particular problem for low and moderate income families, and barriers to choice posed by racial and other discrimination have not been fully overcome.

The national housing goal must remain a high priority for the federal government, as well as the states, local governments and the private sector during the 1980's. Housing programs should be designed to encourage joint public/private efforts to finance, build, and maintain an adequate supply of affordable housing.

Addressing Problems of Supply and Cost

In the 1980s, about 42 million Americans will reach the prime home-buying age of 30, compared to about 30 million in the 1970s. The trend toward more single-person households not only increases aggregate demand for housing but also results in changes in the type of housing units in demand. Growth in demand also results from homeownership being an excellent personal investment in inflationary times.

The housing market in many areas of the country has been unable to satisfy this growth in demand. The shortfall in supply is attributable to two major factors: the shortage of capital for new residential construction and the rapid escalation of housing costs.

Housing construction is one of the most cyclically sensitive sectors of the economy. Minor fluctuations in interest rates can produce major changes in the mortgage market and production levels for new housing. Although the recent growth of long-term certificates of deposit and expansion of the secondary mortgage market have mitigated this problem somewhat, residential construction still remains highly sensitive to cyclical changes in the economy.

Sharp increases in the costs of housing over the past decade have placed the dream of owning a single-family home beyond the reach of a growing proportion of households. The market has not provided new alternative home ownership opportunities (e.g., new condominiums) in sufficient quantities to satisfy the demand; nor has construction of new multi-family rental housing been sufficient to meet rental demand. Increases in construction and financing costs have been a significant constraining factor in both the single-family and multi-family housing markets. In many areas, operating costs for multi-family rental housing have increased more rapidly than rents, further eroding investment and contributing to severe shortages of rental housing.

The present housing crunch can be attributed in part to the cumulative effects of government monetary and fiscal policies, environmental and other restrictions on residential construction, rent control and condominium conversion, and program investment decisions. Because government policies exert a major influence on the housing market, solutions to the related problems of supply and cost depend, in part, on governmental action to remove unnecessary barriers to a smoothly functioning housing market. Direct government involvement should be focused on those areas where the private sector is unable or unwilling to address the needs of particular markets or population groups. In addition, governmental agencies continue to have an important role in facilitating an efficient system of mortgage financing.

Federal Actions Suggested

- A more stable flow of capital into residential construction would result in a more smoothly functioning housing market and a lower rate of growth in housing costs. A thorough reevaluation of the regulation of thrift institutions and the effects on housing finance of conventional monetary policy should be undertaken to identify alternative approaches that can "smooth out the bumps" in the availability of funds for residential construction. Particular attention should be given to measures that would enable thrift institutions to compete more effectively for funds during periods of high short-term interest rates.

- The federal government should, consistent with adequate investor protection, encourage the activities of both federal and private issuers and guarantors of mortgage backed securities in order to maintain an adequate flow of capital through the secondary mortgage market. Federal policy should continue to recognize the central role played by public or quasi-public institutions involved in the secondary mortgage market. The ceiling on the size of single-family loans purchased by FNMA and FHLMC should be adjusted for high cost areas to permit homebuyers and financial institutions in all sections of the country to benefit equally from the activities of these federally sponsored corporations.

- Homeownership and rental subsidy programs should be targeted to low and moderate income households but should also encourage a mix of family income levels in assisted housing. These programs should be reviewed regularly to ensure that interest rates and mortgage limits are set at realistic levels.

- To reduce the extreme effects of the money market cycle on mortgage availability, private lenders should be encouraged to offer more flexible mortgages (e.g., variable rate, graduated payment), without precluding consumer choice of conventional financing. Federal regulatory agencies should monitor the growth of these new mortgage instruments and, where necessary, should consider limitations to protect lenders and borrowers alike against unacceptably high economic risks.

- Programs utilizing a shallow subsidy approach should be retained to increase the supply of rental housing, provided such a program does not reduce commitments to low income rental housing needs and itself contains a low or moderate income component. Such a program should permit states the flexibility needed to assure production of rental housing in areas where the problems are most severe. Determination of the mix between new and existing housing units for purposes of low income rental subsidy programs

should be based on community needs, as reflected in locally developed housing assistance plans.

- o The Mortgage Revenue Bond Program is an important vehicle for the financing of home ownership in light of continued high interest rates and housing costs which place home ownership out of the reach of many would-be first time homebuyers. The Mortgage Subsidy Bond Tax Act of 1980 and the Deficit Reduction Act of 1984 placed significant restrictions on the program, and there is no need to further restrict the program. Congress must eliminate the provision that "sunsets" the Mortgage Revenue Bond Program on December 31, 1987. The Mortgage Credit Certificate Program, newly authorized by the 1984 Act, should remain an optional alternative to, not a mandatory replacement for, the states' use of mortgage revenue bonds. Consideration should be given to utilizing existing public and private programs to operate in tandem with mortgage revenue bonds to reduce home ownership costs for target population.

- o In many jurisdictions, the construction of rental housing other than luxury dwellings is economically infeasible without tax-exempt financing. Therefore, Congress should continue to permit state housing finance agencies to issue tax-exempt multifamily housing industrial bonds. To further reduce finance costs and thus promote affordability for low and moderate income tenants, federal guarantees should continue to be available in tandem with tax-exempt bonds for housing.

- o Federal housing policies should recognize the special needs of rural areas, and the federal commitment to rural housing should remain intact. The Farmers Home Administration should encourage joint federal/state initiatives to develop affordable rural housing.

- o An explicit federal strategy to avert housing abandonment should be developed. The most effective strategies are likely to be those that combine and target the resources of both federal and state government. Existing federal programs therefore should provide states with flexibility to target them to buildings threatened with abandonment or acquired by government as a result of foreclosure. Expansion of the urban homesteading program and provision to set aside Section 8 units for this purpose should be given priority consideration in developing an overall approach to the problem of abandonment.

- o Private pension funds, which are federally regulated pursuant to the Employee Retirement Income Security Act (ERISA), hold approximately $700 billion in assets. Historically, only a small percentage of those assets have been invested in housing. The federal government should carefully consider whether there exist any unnecessary regulatory barriers to pension fund investments in residential mortgages.

State Actions Suggested

- o Over forty states have established housing finance agencies that use tax-exempt revenue bonds to meet the home ownership and rental housing needs of low and moderate income residents. States are also responsible for overseeing the issuance of mortgage revenue bonds by local units of government and for ensuring that these programs conform with legitimate public purposes. States should continue to assure that this indirect federal subsidy is used in a

responsible and effective manner to fill gaps in the private mortgage market. States should also encourage their housing finance agencies to explore and evaluate the uses of the newly authorized Mortgage Credit Certificate Program.

- While federal programs play a significant role in stimulating new condominium construction, regulation of conversion and protection of tenants' interests can be addressed most effectively in response to particular market characteristics at the state and local level. The loss of rental units and displacement of tenants due to condominium conversions are phenomena best regulated at the state level.

- As state and local public employee pension funds grow in importance in national capital markets, they are increasingly able to play an important role in housing finance. States should consider using their pension funds to provide mortgages to public employees, shared-equity programs to lower initial downpayments in return for a share of eventual capital gains, and direct provision of loans for single-family housing.

- In recent years, the decline in Americans' ability to purchase homes and find affordable rents has become a national crisis. States can play a significant role in reducing housing costs. States should examine, where appropriate, their land development and housing policies and regulations to consider amending those which unnecessarily add to the costs of housing production. States should also provide information to their local governments about ways to reduce housing production costs and make housing more affordable.

- In recent years numerous federal, state and private sector studies have demonstrated the cost savings which are possible to the homebuyer through reforms and streamlining of the nation's building regulatory process. States, working together with their units of local government, should seek to reduce the building regulatory portion of the cost of new housing by adopting and maintaining uniform modern model building codes and supporting the introduction of new building technologies.

- State and local government further should implement those codes through streamlined administration techniques and provide positive support for the adequate education and training of state and local code enforcement personnel.

- States should actively monitor the progress of Farmers Home Administration state offices in obligating their allocated funds for rural housing. Where appropriate, states should work with FMHA officials to remove obstacles to participation in FMHA housing programs.

Meeting Low Income Housing Needs

While national housing policies should be designed to ensure an adequate supply of housing to satisfy the demands of the general population, particular attention must be given to meeting the needs of low income households. Past Federal subsidy programs for new construction and substantial rehabilitation of rental housing have been characterized by high unit costs. Although rent subsidies for existing housing units may appear to lower

unit costs and stretch the housing assistance dollar further, this approach is not responsive to low income needs in areas where the supply of existing housing is tight.

The range of federal subsidy programs directed to meeting low income housing needs should include programs that effectively leverage federal funds to produce new units as well as programs that provide rental assistance for existing units. Priority should also be given to programs which protect the physical and fiscal soundness of the nation's existing inventory of assisted low income housing. Government at both the federal and state levels should strive to maintain sufficient levels of activity, improve program flexibility and adaptability, and ensure effective administration of programs in response to local needs and conditions.

Greater recognition should be given to the fact that programs which produce new or rehabilitated housing units provide more than shelter. They also play an important role in stabilizing families and revitalizing distressed neighborhoods. Thus, low income housing programs should be viewed as an important component of community and economic development efforts.

<u>Federal Actions Suggested</u>

- Although past and present federal programs have improved housing conditions and housing choices for millions of americans, there remains a significant shortfall in the amount of decent and adequate housing at rents which low income households can afford. For this reason, low income housing programs should be maintained at adequate levels.

- To the extent that certain construction programs may be considered too costly, greater reliance may be warranted on rehabilitation of available buildings to increase the supply of decent housing for low income tenants. Such programs should be implemented in a manner which assures that the current tenants of renovated units are not involuntarily displaced.

- The Federal Government should accord high priority to maintaining the physical and financial soundness of existing low income, federally assisted housing and protect substantial governmental investments in these properties while assuring their continued viability and affordability for low income tenants.

- Increased attention is being given to the idea of "privatizing" public housing -- i.e , selling public housing units to the tenants. Demonstration projects to explore tenant purchases of public housing are more appropriate at this stage than wide-scale national programs. Federal subsidies should remain in place where necessary to help low income owners maintain their units after they purchase them.

- To ensure that federal low income housing resources are directed to projects where the need is most acute and the impact greatest, program dollars should be allocated in accordance with local, regional, and state plans and priorities.

- The Farmers Home Administration has negotiated formal cooperative agreements with a number of states to assure that federal funding decisions are consistent with overall state priorities. HUD should make the necessary program adjustments to permit and encourage similar agreements with states.

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- Total reliance on a rental subsidy approach should be discouraged. However, Congress should continue to fund both Section 8 housing certificates and housing vouchers while carefully monitoring these programs' impact and effectiveness in meeting low income housing needs. Fair market rent determinations should be pegged closely to local market conditions and should be adjusted frequently as market conditions change.

- Housing program regulations should be as simple and straightforward as possible and should be consistent among all agencies that finance housing so red tape costs are minimized and private sector participation is not discouraged.

- Federal block grants to states, whether for the construction, subsidization, rehabilitation or operation of housing units, may be an appropriate mechanism for federal assistance. Any block grant proposal should be funded at substantially the same level as the federal programs to be consolidated. The block grants should be characterized by flexibility, adequate administrative funds, targeting to low and moderate income individuals and minimal mandates. A block grant proposal should permit each state to choose to administer the program or leave the administration with the federal government.

State Actions Suggested

- States should continue the roles they have played successfully -- developing appropriate housing strategies, filling in gaps between federal programs, complementing and adapting federal programs to work in local settings, and providing technical assistance to local agencies and private developers who utilize federal and state programs.

- Because state housing finance agencies (HFAs) have been particularly successful in forging linkages with federal programs, states should continue to strengthen their HFAs and target their resources to complement federal and private sector efforts to meet low income housing needs.

- Many states have found it beneficial to act as housing authorities for smaller communities that otherwise lack the resources and expertise to participate in the Section 8 and public housing programs. This approach warrants consideration by other states.

- States should encourage the use of available housing programs as a component of neighborhood revitalization efforts, in conjunction with community development block grants and similar programs. State technical assistance can help localities effectively combine federal housing and community development funds for maximum benefit.

Ensuring Fair Housing Policies and Practices

The rights of free choice in the housing market are protected by federal and state laws. Enforcement of federal fair housing laws is delegated to states that have comparable legislation. This augments the enforcement provisions of the federal law with the generally greater authorities the states possess. Effective enforcement of federal and state fair housing laws is an important step toward ensuring equal opportunities and preventing overt discrimination in housing.

However, there are some subtle barriers to freedom of housing choice that can be more difficult to identify and overcome (e.g., mortgage or insurance redlining, exclusionary zoning practices). In addition, the market often does not meet the needs of those with special housing requirements and consequently deprives them of the range of choice available to others. While federal and state regulations, enforcement mechanisms, and disclosure requirements are necessary tools to eliminate unfair housing practices, only through the active involvement and commitment of the private sector can the promise of equal opportunities in housing be fulfilled.

Federal Actions Suggested

- Enforcement of the federal (and state) fair housing statutes is uneven, in part because of the federal government's reliance on the powers and resources of state agencies. To improve the enforcement record, the federal government should provide sufficient resources to the states for enforcement.

- The Home Mortgage Disclosure Act is an important instrument for overcoming mortgage redlining, one of the indirect obstacles to equal opportunity in housing. The program should be made permanent and its implementation should continue to be carried out as diligently as in its initial years.

- In recent years, a number of federal initiatives have been undertaken to encourage expansion of housing opportunities for the disadvantaged through demonstration programs, incentive mechanisms, and the establishment of priorities within existing federal programs. Efforts to develop "partnership" agreements with state and local governments represent a similar positive approach to fair housing. The Governors endorse the provision of positive incentives for achievement of fair housing through the development of a cooperative partnership approach to shared federal-state objectives.

State Actions Suggested

- States should continue aggressive enforcement of state and, where delegated, federal fair housing laws. In addition, states should encourage affirmative efforts by local governments to eliminate exclusionary zoning and other local restrictions that pose barriers to freedom of choice in housing.

- State housing finance programs can be used to expand housing opportunities as a positive complement to enforcement of antidiscrimination laws. States should also assume a leadership role in working with the full range of commercial sectors involved in housing (e.g., builders, owners of rental housing, realtors, lending institutions) to gain active private sector involvement to eliminate discriminatory practices and assure equal housing opportunities.

COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGICAL INNOVATION

Committee Resolution
Federal Economic and Community Development Programs

The National Governors' Association's (NGA's) policy position on Economic Development Challenges of the 1980's, Intergovernmental Cooperation in Economic Development (E.-3) reads in part:

> The continued use of many major federal economic development tools is now threatened by reductions in federal funds. The federal role in economic development should be to create a better climate for increased private investments and to provide the more comprehensive resources of the federal government to areas experiencing significant economic problems.

The administration's fiscal year 1986 budget calls for the elimination of the Urban Development Action Grant (UDAG) program, the Business and Industrial (B&I) program, the Small Business Administration (SBA) and the Economic Development Administration (EDA). The proposed fiscal year 1986 budget also calls for a large reduction in funding for the Community Development Block Grant (CDBG) program.

The submitted budget would eliminate the Rental Housing Development (HODAG) program and place a moratorium on major federal housing programs.

The federal role in state and local development initiatives is vital and still needed. programs such as UDAG, EDA and CDBG have provided the financial incentives to spur job creation and capital expansion in distressed communities which have escaped the benefits of economic recovery. Thousands of jobs will not be created and millions of dollars in private investment will be lost, if these programs are terminated or reduced.

The members of NGA's Committee on Economic Development and Technological Innovation firmly support the continued funding of these targetted economic development programs. These important programs have already suffered major reductions over the last four years. The NGA supports an overall freeze in non-defense domestic discretionary spending as a contribution to the reduction of the high national deficit. NGA can not condone, however, additional program cuts or eliminations since they are neither warranted nor cost effective.

Concerns of the Council of State Community Affairs Agencies (COSCAA)
About Two Statutory Provisions Governing the
State Administered Community Development Block Grant Program

o Definition of low and moderate income. The most pressing substantive problem states have faced in the CDBG program concern the technical county by county definition of low and moderate income, which makes meeting the needs of low income people in non-urban areas difficult. Part of the problem lies in the fact that a great county by county variation in income exists in many states. For example, in Texas the LMI level for a family of four ranges from $12,500 in south Texas to $26,000 in the Houston-Galveston SMSA. Thus, a family making $12,501 in south Texas would not be considered low-moderate income while a family making $25,999 in the Houston region would be. In North Carolina, the income levels in the counties located within 60 miles of Raleigh range from a low of $12,500 to a high of $21,500. The cost of living differential does not make-up the large difference in income levels. The real problem then occurs when in these poor rural counties the poverty is spread relatively evenly so that it is impossible to meet an areawide need. Examples from Tennessee indicate that a bedroom community with an LMI figure of $20,150 can more successfully compete for an areawide sewer project than a rural county with an income of $10,000. The provision in H.R. 1 that redefines low and moderate income would alleviate this problem and permit states to meet the areawide needs of poor people in poor counties. COSCAA supports this proposed amendment.

o Same manner/same extent provisions. The second major concern of the states deals with the "in the same manner and to the same extent" language that was added to Section 106(d)(6) in 1983. This section, as amended in 1983, apparently requires that the local recipients of state administration be subject to Title I and other applicable federal laws in a fashion exactly like the entitlement grantees. COSCAA supports the notion that local recipients of state administration should be subject to Title I and other applicable federal laws. However, COSCAA respectfully disagrees with requiring the application of HUD's entitlement regulations to states and their local recipients for two major interlocking reasons.

First, non-entitlement or rural areas have different needs and capacities than do large urban areas, an obvious point fully recognized by Congress when it created the Small Cities program in 1974. Especially in the programs administered by the states, local recipients have usually been very small jurisdictions with no professional housing and community development staff; indeed, they are often largely without any full-time

professional staff. Mayors, clerks, councilmen and commissioners generally function as part time officials with full-time occupations independent of government. Administrative facilities, equipment and processes are often rudimentary. Yet the needs of these communities and of the citizens within them are often severe - basic needs for adequate water and wastewater treatment facilities, for standard housing, and for jobs and job producing facilities. These circumstances mean that their grants are usually for a single major purpose and for only 1 grant year. There are few repeat recipients. There is no ability to build a cadre of professionals.

It is plainly inappropriate to attempt to apply entitlement regulations - detailed regulations designed for larger, dense urban areas that employ many professionals and receive large funds year after year - to such communities. Unfortunately, it is not only inappropriate, it is also harmful. Small, poor communities are intimidated by such regulations and paperwork and become discouraged from applying. The effect, then, is to reduce the effectiveness of the CDBG program and to prevent many poor communities and low income citizens from receiving assistance.

Second, the application of entitlement regulations to recipients of state-administered programs confuses the role of grant distributor and grant implementer. HUD directly distributes grants to entitlement localities which implement the grants, and promulgates regulations appropriate for its direct grantees. All entitlement localities are subject to the same set of regulations from their single direct distributor of grants.

In the state-administered program, the state is the direct grant distributor and, as such, should have the responsibility to establish administrative and oversight guidelines within the explicit direction given by the statute. As the entitlement localities relate to HUD, the direct provider of their grants, so should a state's recipients relate to the state, their direct provider of grants. In this way, an appropriate national uniformity is established in the nature of the relationship between grant implementers and their direct grant providers. Additionally, in the state program such a relationship gives the states the necessary flexibility to make fine-tuning decisions within the law in response to state constitutional and statutory circumstances, to exercise fully and responsibly their obligations as direct grant distributors, and to make the marginal modifications that make the CDBG program beneficial to the hundreds, in some cases thousands, of small, diverse, and often unsophisticated eligible localities within each state.

HUD's role, then, in the state program is different than its role as direct grant

distributor to entitlement localities. HUD's responsibilities are to ensure that the states implement the explicit provisions of the statute, follow through on their own policy and regulatory decisions, and provide the necessary monitoring and compliance oversight of their recipients.

This administrative system produces comparable roles between direct grant distributors and grant implementers. It allows necessary adjustments between large and sophisticated localities that continuously receive funds for complex activities and small, relatively unsophisticated localities that receive funds only once and for one basic activity.

The "in the same manner and to the same extent" problem is an important one to the states and their recipients. I would like to provide the subcommittee with several examples from HUD's entitlement regulations as they apply to eligible activities and national objectives to underscore further this point.

Section 570.204 allows localities to fund only three types of subrecipients - neighborhood-based organizations, local development corporations and Section 301(d) Small Business Investment Companies - to carry out neighborhood revitalization, community economic development, or energy conservation projects. The definition of a neighborhood-based nonprofit organization found in Section 570.204 (c) does not reflect the type of nonprofit organizations often found in rural areas. In rural areas a nonprofit organization usually assists several communities in a multi-county area. For example, rural community action agencies typically serve a three or four county area. If these specific entitlement regulations are followed, HUD has created a situation where a rural community that does not have the capacity to undertake an activity cannot call upon a qualified nonprofit organization to carry out the project. This happened recently in North Carolina where under HUD's definition the state could not give a housing grant to a community that would have made a sub-grant to a multi-county community action agency that had been running FmHA self-help housing programs for several years. According to HUD's Subpart C definition of a neighborhood-based nonprofit organization, this CAP agency did not qualify as an eligible subrecipient.

States also are concerned about the interpretation of the eligible activity regulations. Who will decide the very fine aspects of an eligible activity? When will such decisions be made? For example, Section 570.203 allows the use of CDBG funds for railroad spurs. What is the difference between a railroad spur, which is an eligible

activity, and the addition of 10 miles of track, which may not be an eligible activity? This type of decision should be made by the state when it is designing and implementing its program.

States believe that they will encounter difficulty with many of the more minute aspects of HUD's rules on eligible activities because the law prohibits states from excluding any eligible activity. Since HUD's regulations determine that activities such as the refinancing of an existing loan, decorative pavements, pools of water and fountains, and works of art are eligible, funding decisions would not be made by the state as a part of its distribution of funds but would instead be made by the federal government in regulations.

Several of HUD's entitlement regulations regarding national objectives concern states. For example, HUD's proposed entitlement regulations require that each single-family unit rehabilitated with CDBG funds must be occupied by low- and moderate-income persons to qualify under the LMI national objective. Although all other types of activities are assessed on how the entire activity complies with the national objective, in this example the assessment is made on a unit-by-unit basis for single-family rehabilitation. This requirement places a severe restriction of the ability of localities to undertake single-family rehabilitation. This is especially true considering the requirements necessary for activities to meet the slum/blight national objective. The consequences for small, rural localities, where single-family housing is the predominant housing stock and where there is usually a co-mingling of households below the LMI determination with those just slightly above, are severely adverse to housing rehabilitation and neighborhood improvement.

The law does state that housing activities can be considered to benefit low- and moderate-income persons only to the extent that the housing is occupied by such persons. However, the HUD regulations do not take into account the difference between judging whether an activity meets one of the national objectives and counting the activity towards the 51 percent primary objective requirement. Some states want to be able to fund targeted neighborhood housing rehabilitation projects that assist all of the homes in the area in need of repair. The entitlement regulations prohibit such comprehensive projects.

HUD's proposed rules on economic development count only permanent full-time jobs. In many rural areas seasonal and part-time jobs are critical to the economic viability of the community. The state should have the flexibility to fund projects that provide

seasonal or part-time jobs if this best meets the needs of the locality.

Many rural areas and non-entitlement suburban areas have high concentrations of elderly persons with incomes that far exceed the definition of low- and moderate income. Some states are troubled by HUD's presumption that unless proven otherwise all elderly are LMI and would prefer to establish standards that require localities to check the incomes of all persons receiving CDBG assistance; these states would not assume that elderly persons are low- and moderate-income.

HUD ties the definition of slum and blight to a state definition and therefore recognizes that different standards exist across the country. However, HUD continues to attempt to put federal rules in place, overriding the state definition by establishing national requirements on the characteristics of slum and blighted areas and by specifying the types of documentation that localities must maintain and the types of activities that can be undertaken.

HUD's proposed rules also limit rehabilitation to substandard units in an area that has been designated as a slum or blighted area and do not permit assistance to activities that prevent slums or blighting conditions. If an area has been declared to be a blighted area, a comprehensive project to revitalize the area is the only logical approach. Requiring localities to restrict their repairs to substandard units, and thereby not allowing them to fix up units that are in need of repair but are not yet substandard, means that HUD is forcing localities to do less than a complete job in a neighborhood. These requirements will force localities to rehabilitate units in different spots around the target area rather than addressing the needs of the area in a comprehensive fashion. Again, the often different nature of housing stock in rural areas, where substandard housing is often interspersed with deteriorating but standard housing, makes following this regulation counterproductive to the long-term interests of small rural localities.

Senator HECHT. Thank you Mr. Geltman. Let us first hear from Commissioner Dondero.

Ms. Dondero.

STATEMENT OF THALIA DONDERO, CHAIRMAN, BOARD OF COUNTY COMMISSIONERS, CLARK COUNTY, NV, ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES

Ms. DONDERO. Thank you.

Good morning, Mr. Chairman, Senator Hecht, Senator Proxmire. We really appreciate being here and I want to congratulate you, Mr. Hecht, on being chairman of this committee. I think it's a break for the State of Nevada and for this country of ours. I think that you'll represent us well.

Senator HECHT. I thank you very much but you haven't found out what the recommendations of the committee are going to be so maybe you'd better withhold your judgment.

Ms. DONDERO. I will not. I think it's wonderful that you're here.

Senator HECHT. Well, that's what these hearings are all about so let's see how well you can state your case.

Ms. DONDERO. And I feel like a country girl come to the big city.

Senator HECHT. Those are the ones you worry about.

Ms. DONDERO. As a local elected official and a long-time advocate for the disadvantaged, I bring to you, really, a deep concern for the growing housing needs in this country while at the same time an acute awareness of a larger mandate to reduce the deficit and relieve the tax burden.

And we really do believe that we must have a balanced budget, that we must reduce that deficit and really very honestly and very carefully.

And since the late 1970's the National Association of Counties has supported cuts in certain Federal domestic assistance programs and we have already accepted $40 billion of cuts since 1981 in domestic assistance. Even so, we recognize the need of each level of government to share the burden in decreasing the national deficit.

BUDGET FREEZE SUPPORTED

We support an across-the-board freeze for the fiscal year 1986. This would mean a $3 billion loss in domestic spending to State and local governments but we are willing to do our share but unfortunately, fairness alone is not enough.

We feel it is unreasonable to subject the poor, the sick, the low-income elderly, to a freeze. We maintain that means tested entitlements including Medicaid, AFDC, SSI, and food stamps, should be exempt from the freeze. And we understand that this will mean that choices must be made.

But as we have told the Senate Budget Committee in testimony, and have conveyed to members of the House Budget and Banking Committees, we are unwilling to accept cuts in the Community Development Block Grant Program, Rural Programs, Mass Transit, and General Revenue Sharing, or the Assisted Housing Programs. These programs must be maintained at the 1985 levels.

We are willing to negotiate, even sacrifice, other programs in order to maintain these five.

Clearly, the deficit crisis is dominating all legislative action this year. However, we cannot let that debate eclipse another simmering crisis, the need for decent housing and even basic shelter.

HOUSING NEEDS ACUTE

The new phenomenon of homelessness and the growing number of families and working poor included among those ranks should be really no surprise to those of us who have watched the Federal commitment to housing diminish over the past 4 years. And in many counties there are waiting lists for section 8 housing that are 6 and 7 years long.

In Clark County, NV, we have waiting lists. Every day I receive calls from people that really need to have help in housing. And we have plenty of vacant units on the market but a large share of our population simply cannot afford it. The Housing Voucher Program could help Clark County match these units with those needing decent housing.

And at the present time there are more than 5,500 lower income families waiting on waiting lists for public housing in the city of Pittsburgh and Allegheny County.

And based upon the present rate of turnover, it will take approximately 6 years to provide these persons with the housing they need.

Based upon a survey just completed in Cobb County, GA, the outskirts of Atlanta, 5,000 sought shelter in the county last year.

The homeless population in Los Angeles County is estimated between 35,000 and 50,000. Of this number some 10,000 are centered in the downtown skid row area but the problem is not confined to that urban core.

The San Fernando Valley has a large homeless population in Pasadena, Long Beach, Santa Monica, and the harbor area. It is not uncommon to see people sleeping under freeway overpasses under cardboard cartons and in doorways. Not unlike the shopping cart street people that we have.

We are finding that the character of the homeless is somewhat different in counties than in central cities. Rather than the transients, the deinstitutionalized mentally ill or temporarily homeless runaways, in Cobb County, GA, 90 percent of the homeless are families, either the traditional or female-headed. They tend to be down on their luck, many times working but underemployed, and they cannot afford to pay the suburban rents.

And in Arlington County, VA, for example, the average rent for a two-bedroom apartment is $542 but the maximum aid for a parent and two children is $363.

And the role of the counties addressing this problem is critical for several reasons. We are finding the homeless families tend to gravitate to the suburbs but rents tend to be higher, the market much tighter, and the number of available assisted units are limited.

And not only that, the counties provide the support services, the social services, and also the indigent health care and general welfare. This puts a tremendous financial strain on local budgets. A comprehensive approach to the problem must be taken.

And this will involve not only the efforts of this committee, Mr. Chairman, but of several other committees as well. And we really must look at ways to use existing housing certificates or vouchers for shelter or single-room occupancy units, extend the SSI eligibility for shelter residents beyond the 3-month limit, repeal the SSI prohibition for residents in county, public board and care home, and look at the number of ways to more effectively use the food stamp, the Medicaid, and the low-income Energy Assistance Program for the homeless and the homeless shelters.

We have two additional issues that I would like to address: the fledgling housing development grant, and, two, the Rental Rehabilitation Program. And only three counties qualify for the new Development Grant Program. The targeting mechanism used by HUD disallowed many major urban counties while qualifying undeveloped agricultural areas on others.

Generally, we recognize that demographics in counties are too diverse to qualify such large geographic areas as a whole. Yet, there are many places in counties in the unincorporated communities with high levels of poverty, overcrowding and low vacancies.

And, for example, the Watts-Willowbrook area in Los Angeles County is not a municipality, but has a population of nearly 200,000. And 56 percent of those are low-income and a majority of which are black. And such areas as this should be able to qualify for the Development Grant Program. And we recommend that unincorporated community concept now used in the UDAG pockets of poverty program be incorporated into the Development Block Grant Program.

But the Rental Rehab Program has many administrative problems and conflicting objectives.

And I guess I would like to focus my comments on what we view as a major departure from the policy of deconcentration.

The program requires the concentration of lower income persons in order to assure that the market forces do not raise rents. There are few high-density, low-income areas in counties. Counties are not interested in repeating this urban pattern and feel that Congress should be careful to safeguard the goal of deconcentration in Federal housing programs.

And I realize that the jurisdiction of this committee is limited. However, we are very concerned with the potential impact of the tax reform on housing. We hope that you can work closely with the tax writing committee to ensure that reform measures do not adversely affect rental and low-income housing.

And the CDGB and the UDAG grants, there are two final issues that I would like to address here, and this relates to the Community Development Block Grants Program.

Urban counties are faced with meeting a threshold population of 200,000, which is largely dependent on the cooperation of a number of local units of government. The 3-year opt-in period is helpful, however, counties still face the political problem of solicitating participation from cities, towns, and townships, while at the same time targeting. We would like to separate the qualification and funding process——

Senator HECHT. Excuse me. Can you kind of summarize it? Your time is up.

Ms. DONDERO. OK. But anyway, I guess that we would really like for the committee to look some of those problem areas and we have developed some legislative language that we will present to you but we are concerned with some of the priorities that we have in this committee's jurisdiction, which is a community development block grant and the assisted housing projects.

But we really want to say that we're willing to work with you but we need to have that help to solve some of the local problems.

Thank you.

Senator HECHT. Thank you. Your full statement will be a matter of the record.

[The complete prepared statement follows:]

NATIONAL ASSOCIATION of COUNTIES

440 First St NW Washington DC 20001
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STATEMENT OF

THE HONORABLE THALIA DONDERO

CHAIRMAN, BOARD OF COUNTY COMMISSIONERS, CLARK COUNTY, NEVADA

GOOD MORNING, MR. CHAIRMAN. I AM THALIA DONDERO, CHAIRMAN OF THE CLARK COUNTY BOARD OF COMMISSIONERS, AND A MEMBER OF THE BOARD OF DIRECTORS OF THE NATIONAL ASSOCIATION OF COUNTIES.* I FIRST WANT TO PERSONALLY EXTEND MY CONGRATULATIONS TO YOU, MR. CHAIRMAN, ON YOUR APPOINTMENT TO CHAIR THIS COMMITTEE. WORKING PERSONALLY WITH YOU AS LONG AS I HAVE, I KNOW THAT CLARK COUNTY, THE STATE OF NEVADA, AND THE CITIZENS OF THIS COUNTRY WILL BE WELL REPRESENTED. I APPRECIATE THE OPPORTUNITY TO BE HERE TODAY AND HOPE THAT WHAT I HAVE TO SAY WILL BE USEFUL TO YOU IN THE DIFFICULT DECISIONS YOU WILL BE MAKING THIS YEAR.

AS AN ELECTED OFFICIAL AND A LONG TIME ADVOCATE FOR THE DISADVANTAGED, I BRING TO YOU A DEEP CONCERN FOR THE GROWING HOUSING NEEDS IN THIS COUNTRY WHILE AT THE SAME TIME AN ACUTE AWARENESS OF A LARGER MANDATE TO REDUCE THE DEFICIT AND RELIEVE THE TAX BURDEN.

*THE NATIONAL ASSOCIATION OF COUNTIES IS THE ONLY NATIONAL ORGANIZATION REPRESENTING COUNTY GOVERNMENT IN THE UNITED STATES. THROUGH ITS MEMBERSHIP, URBAN, SUBURBAN AND RURAL COUNTIES JOIN TOGETHER TO BUILD EFFECTIVE, RESPONSIVE COUNTY GOVERNMENT. THE GOALS OF THE ORGANIZATION ARE TO: IMPROVE COUNTY GOVERNMENT; SERVE AS THE NATIONAL SPOKESMAN FOR COUNTY GOVERNMENT; ACT AS A LIAISON BETWEEN THE NATION'S COUNTIES AND OTHER LEVELS OF GOVERNMENT; ACHIEVE PUBLIC UNDERSTANDING OF THE ROLE OF COUNTIES IN THE FEDERAL SYSTEM.

WE BELIEVE THAT THE DEFICIT MUST BE REDUCED AND ENDORSE THE EFFORTS OF CONGRESS TO DO SO. BUT WE FEEL THAT THIS EFFORT MUST BE DONE FAIRLY, HONESTLY, AND CAREFULLY.

SINCE THE LATE 1970'S, THE NATIONAL ASSOCIATION OF COUNTIES HAS SUPPORTED CUTS IN CERTAIN FEDERAL DOMESTIC ASSISTANCE PROGRAMS AND WE HAVE ALREADY ACCEPTED OVER $30 BILLION OF CUTS SINCE 1981 IN DOMESTIC ASSISTANCE. EVEN SO, WE RECOGNIZE THE NEED OF EACH LEVEL OF GOVERNMENT TO SHARE THE BURDEN IN DECREASING THE NATIONAL DEFICIT.

WE SUPPORT AN ACROSS THE BOARD FREEZE FOR THE FISCAL YEAR 1986 FEDERAL BUDGET. THIS WOULD MEAN A $3 BILLION LOSS IN DOMESTIC SPENDING TO STATE AND LOCAL GOVERNMENTS BUT WE ARE WILLING TO DO OUR FAIR SHARE. WE FEEL IT IS UNREASONABLE TO SUBJECT THE POOR, THE SICK AND THE LOW INCOME ELDERLY TO A FREEZE. WE MAINTAIN THAT MEANS-TESTED ENTITLEMENTS, INCLUDING MEDICAID, AFDC, SSI, AND FOOD STAMPS SHOULD BE EXEMPT FROM A FREEZE.

WE REALIZE THAT A FREEZE ALONE WILL NOT ENABLE THE CONGRESS TO MEET ITS DEFICIT REDUCTION GOALS. WE REALIZE THAT IN ADDITION TO THE $3 BILLION WE GIVE UP IN AN OVERALL FREEZE WE MAY HAVE TO NEGOTIATE OR SACRIFICE OTHER PROGRAMS. WE KNOW THAT THIS COMMITTEE WILL SOON BE ASKED TO REPORT AUTHORIZED SPENDING LEVELS FOR THESE PROGRAMS UNDER YOUR JURISDICTION THAT ARE WITHIN LIMITS OF THE BUDGET RESOLUTION. WE UNDERSTAND THIS WILL MEAN THAT CHOICES MUST BE MADE. BUT AS WE HAVE TOLD THE SENATE BUDGET

COMMITTEE IN TESTIMONY AND HAVE CONVEYED TO THE MEMBERS OF THE HOUSE BUDGET AND BANKING COMMITTEES -- WE ARE UNWILLING TO ACCEPT CUTS IN THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM OR THE ASSISTED HOUSING PROGRAMS. THESE PROGRAMS MUST BE MAINTAINED AT THE 1985 LEVELS. WE ARE WILLING TO NEGOTIATE AND EVEN SACRIFICE OTHER PROGRAMS IN ORDER TO MAINTAIN THESE TWO.

HOUSING

CLEARLY THE DEFICIT CRISIS IS DOMINATING ALL LEGISLATIVE ACTION THIS YEAR; HOWEVER, WE CANNOT LET THAT DEBATE ECLIPSE ANOTHER SIMMERING CRISIS -- THE NEED FOR DECENT HOUSING AND EVEN BASIC SHELTER.

THE NEW PHENOMENON OF HOMELESSNESS AND THE GROWING NUMBER OF FAMILIES AND WORKING POOR INCLUDED AMONG THOSE RANKS SHOULD REALLY BE NO SURPRISE TO THOSE OF US WHO HAVE WATCHED THE FEDERAL COMMITMENT TO HOUSING DIMINISH OVER THE PAST FOUR YEARS. IN MANY COUNTIES THERE ARE WAITING LISTS FOR SECTION 8 HOUSING THAT ARE SIX AND SEVEN YEARS LONG.

I WOULD LIKE TO CITE SOME EXAMPLES FROM COUNTIES THROUGHOUT THE COUNTRY THAT DEMONSTRATE THE CRITICAL HOUSING NEEDS WHICH EXIST FOR US:

- IN CLARK COUNTY OUR WAITING LIST FOR PUBLIC HOUSING IS 400 HOUSEHOLDS LONG. OUR VACANCY RATE IS NIL, AND OUR LAST NEW PROJECT WHICH IS UNDERWAY WILL ONLY HOUSE 100 OF THESE FAMILIES.

IN OUR COUNTY WE HAVE PLENTY OF VACANT UNITS ON THE MARKET, BUT A LARGE SHARE OF OUR POPULATION IS SIMPLY UNABLE TO AFFORD IT.

- AT THE PRESENT TIME THERE ARE MORE THAN 5500 LOWER INCOME FAMILIES ON WAITING LISTS FOR PUBLIC HOUSING IN THE CITY OF PITTSBURGH AND ALLEGHENY COUNTY. BASED ON THE PRESENT RATE OF TURNOVER, IT WILL TAKE APPROXIMATELY SIX YEARS TO PROVIDE THESE PERSONS WITH THE HOUSING THEY NEED.

- IN COOK COUNTY, ILLINOIS, THEY HAD TO CLOSE THE WAITING LIST FOR PUBLIC AND SECTION 8 HOUSING WHEN IT REACHED UPWARDS OF 5000 PERSONS.

- BASED ON A SURVEY JUST COMPLETED IN COBB COUNTY, GEORGIA, (OUTSKIRTS OF ATLANTA) 5000 SOUGHT SHELTER IN THE COUNTY LAST YEAR.

- MONTGOMERY COUNTY, MARYLAND PAID FOR HOUSING IN LOCAL SHELTERS AND MOTELS FOR 167 FAMILIES AND INDIVIDUALS IN 1982, 223 IN 1983 AND 270 LAST YEAR. SOCIAL SERVICE OFFICIALS IN THE COUNTY ESTIMATE THE CURRENT NUMBER OF HOMELESS TO BE BETWEEN 800 AND 1,000 PEOPLE.

- THE HOMELESS POPULATION IN LOS ANGELES COUNTY IS ESTIMATED TO BE BETWEEN 35,000 AND 50,000. OF THIS NUMBER, SOME 10,000 ARE CENTERED IN THE DOWNTOWN SKID ROW AREA BUT THE PROBLEM IS NOT CONFINED TO THE URBAN CORE.. THE SAN FERNANDO VALLEY HAS A LARGE HOMELESS POPULATION, AS DO PASSADENA, LONG BEACH, SANTA MONICA AND

THE HARBOR AREA. IT IS NOT UNCOMMON TO SEE PEOPLE SLEEPING UNDER FREE-WAY OVERPASSES, UNDER CARDBOARD BOXES, IN DOORWAYS AND ON PARK BENCHES.

- IN AFFLUENT FAIRFAX COUNTY, VIRGINIA, COUNTY FUNDS FOR SHELTERING THE HOMELESS HAVE RISEN FROM $168,000 IN 1983 TO A HALF MILLION IN 1985. FAIRFAX COUNTY OFFICIALS ESTIMATE THERE ARE 390 PEOPLE HOMELESS THERE ON ANY GIVEN NIGHT. - IN BROWARD COUNTY, FLORIDA, THERE ARE FAMILIES LIVING IN SHACKS WITH NO WINDOWS OR PLUMBING -- IRONICALLY WITHIN A MILE OF MILLIONAIRE'S HOMES.

WE ARE FINDING THAT THE CHARACTER OF THE HOMELESS IS SOMEWHAT DIFFERENT IN COUNTIES THAN IN CENTRAL CITIES. A GROWING NUMBER OF THE HOMELESS IN COUNTIES ARE FAMILIES, RATHER THAN TRANSIENTS, THE DEINSTITUTIONALIZED MENTALLY ILL, OR TEMPORARILY HOMELESS OR RUNAWAYS. IN COBB COUNTY, GEORGIA, 90% OF THE HOMELESS ARE FAMILIES, EITHER TRADITIONAL OR FEMALE HEADED. THEY TEND TO BE "DOWN ON THEIR LUCK," MANY TIMES WORKING BUT UNDEREMPLOYED. SIMPLE ARITHMETIC SHOWS THAT EVEN THOSE ON AFDC CANNOT AFFORD SUBURBAN RENTS. IN ARLINGTON COUNTY, VIRGINIA, FOR EXAMPLE, THE AVERAGE RENT FOR A TWO BEDROOM APARTMENT IS $542 BUT THE MAXIMUM AID FOR A PARENT AND TWO CHILDREN IS $363.

THE ROLE OF COUNTIES IN ADDRESSING THIS PROBLEM IS CRITICAL FOR SEVERAL REASONS. WE ARE FINDING THAT HOMELESS FAMILIES TEND TO GRAVITATE TO THE SUBURBS. BUT RENTS TEND TO BE HIGHER, THE MARKET MUCH TIGHTER, AND THE NUMBER OF AVAILABLE ASSISTED UNITS VERY

LIMITED. SECOND, COUNTIES ARE THE PROVIDERS OF THE SOCIAL SUPPORT SERVICES NEEDED BY THIS POPULATION IN BOTH THE COUNTY AND THE CENTRAL CITY. COUNTIES ARE RESPONSIBLE FOR INDIGENT HEALTH CARE AND GENERAL WELFARE ASSISTANCE.

BECAUSE THE HOMELESS COMPRISE THE UNEMPLOYED, THE CHRONICALLY DISABLED, THE MENTALLY ILL, VETERANS, BATTERED WOMEN, FAMILIES AND SINGLE MOTHERS -- A COMPREHENSIVE APPROACH TO THE PROBLEM MUST BE TAKEN. THIS WILL INVOLVE NOT ONLY THE EFFORTS OF THE COMMITTEE, MR. CHAIRMAN, BUT OF SEVERAL OTHER COMMITTEES AS WELL. WE MUST LOOK AT WAYS TO USE EXISTING HOUSING CERTIFICATES OR VOUCHERS FOR SHELTERS OR SINGLE ROOM OCCUPANCY UNITS; EXTEND SSI ELIGIBILITY FOR SHELTER RESIDENTS BEYOND THE THREE MONTH LIMIT; REPEAL THE SSI PROHIBITION FOR RESIDENTS IN COUNTY PUBLIC BOARD AND CARE HOMES; AND LOOK AT A NUMBER OF WAYS TO MORE EFFECTIVELY USE THE FOOD STAMP, MEDICAID, AND LOW INCOME ENERGY ASSISTANCE PROGRAMS FOR THE HOMELESS AND HOMELESS SHELTERS.

UNDERLYING ALL THE EFFORTS MADE TO REMEDY THE PROBLEM OF THE HOMELESS IS THE NEED FOR A FIRM AND CONTINUING COMMITMENT TO THE BASIC FEDERAL PUBLIC AND ASSISTED HOUSING PROGRAMS. THE DECLINE OF FUNDING IN THE PAST LED TO THE EMERGENCY WE FACE TODAY AND A MORATORIUM ON FUTURE FUNDING WOULD ONLY EXACERBATE THIS SERIOUS SITUATION.

THERE IS ANOTHER LOOMING PROBLEM WHICH NEEDS ATTENTION. MANY MULTIFAMILY RENTAL PROJECTS FINANCED UNDER THE 221(D)(3) AND 236 BELOW MARKET INTEREST PROGRAMS ARE REACHING THE AGE WHERE THE TAX BENEFITS OF OWNERSHIP ARE DIMINISHING. THESE PROJECTS ARE AN INTEGRAL PART OF THE LIMITED SUPPLY OF AFFORDABLE HOUSING FOR THE LOW AND MODERATE INCOME HOUSEHOLDS. SOME OF THESE PROJECTS, DEPENDING ON THE OWNERSHIP STRUCTURE AND NATURE OF THE SUBSIDY RECEIVED, MAY BE REFINANCED AFTER 20 YEARS. IF PREPAYMENT OF HUD SUBSIDIZED MORTGAGES OCCURS WHEN THE TAX ADVANTAGES OF OWNERSHIP RUN OUT, THE RESTRICTIONS THAT ACCOMPANY THE ASSISTANCE ARE ELIMINATED. THIS COULD RESULT IN A LARGE SCALE LOSS OF LOW AND MODERATELY PRICED RENTAL UNITS AND THE DISPLACEMENT OF TENANTS WHO CANNOT AFFORD HIGHER RENTS.

THERE ARE 15,000 PROJECTS FINANCED THROUGH THESE PROGRAMS NATIONWIDE. HUNDREDS ARE LOCATED IN COUNTIES. IN FAIRFAX COUNTY, VIRGINIA, THERE ARE 16 PROJECTS CONTAINING OVER 2500 APARTMENT UNITS. THE COUNTY HAS ARRANGED THE TRANSFER OF TWO PROJECTS SO THAT THEY WILL CONTINUE TO HOUSE LOWER INCOME PERSONS. BUT IN THE NEXT FIVE YEARS, THREE OTHER PROJECTS MAY BE SUBJECT TO PREPAYMENT. IN A WORST CASE SCENARIO, THIS COULD ELIMINATE 610 LOW COST RENTAL UNITS AND 217 SECTION 8 UNITS.

WE DO NOT HAVE DETAILED STATISTICS FOR OTHER COUNTIES IN THE COUNTRY BUT WE DO KNOW THAT OVER 100 UNITS WERE LOST OVERNIGHT IN DEKALB COUNTY, GEORGIA, UNDER SIMILAR CIRCUMSTANCES. WE FEEL THAT A POTENTIAL PROBLEM EXISTS THROUGHOUT THE COUNTRY.

WE BELIEVE THAT TAX AND HOUSING LAWS SHOULD ENCOURAGE THE MAINTENANCE OF THE EXISTING 221(D)(3) AND 236 STOCK IN THE RENTAL RANGE AFFORDABLE FOR LOW AND MODERATE INCOME PERSONS. WE ARE AWARE OF EFFORTS ON THE PART OF REPRESENTATIVE BARNEY FRANK IN THE HOUSE TO INITIATE LEGISLATION PROVIDING LOW-INTEREST LOANS TO PROJECT OWNERS TO MAKE IMPROVEMENTS IN AGING PROJECTS AND KEEP THEM AFFORDABLE. WE ENDORSE THIS EFFORT.

THERE ARE TWO OTHER HOUSING ISSUES I WOULD LIKE TO ADDRESS -- THE FLEDGLING HOUSING DEVELOPMENT GRANT AND RENTAL REHABILITATION PROGRAMS.

THE NATIONAL ASSOCIATION OF COUNTIES SUPPORTED BOTH PROGRAMS; HOWEVER, WE FEEL THAT BOTH PRESENT PROBLEMS FOR COUNTIES.

ONLY THREE COUNTIES QUALIFY FOR THE NEW DEVELOPMENT GRANT PROGRAM. THE TARGETING MECHANISM USED BY HUD DISALLOWED MANY MAJOR URBAN COUNTIES WHILE QUALIFYING UNDEVELOPED AGRICULTURE AREAS IN OTHERS. GENERALLY, WE RECOGNIZE THAT THE DEMOGRAPHICS IN COUNTIES ARE TOO DIVERSE TO QUALIFY SUCH LARGE GEOGRAPHIC AREAS AS A WHOLE. YET, THERE ARE MANY PLACES WITHIN COUNTIES, PARTICULARLY UNINCORPORATED COMMUNITIES, WITH HIGH LEVELS OF POVERTY, OVERCROWDING, AND LOW VACANCIES. FOR EXAMPLE, WATTS-WILLOWBROOK IN LOS ANGELES COUNTY IS NOT A MUNICIPALITY, YET HAS A POPULATION OF NEARLY 200,000, 56% OF WHICH ARE LOW INCOME AND THE MAJORITY OF WHICH ARE BLACK. AREAS SUCH AS THIS SHOULD BE ABLE TO QUALIFY FOR THE DEVELOPMENT GRANT PROGRAM. WE RECOMMEND THAT THE UNINCORPORATED COMMUNITY

CONCEPT NOW USED IN THE UDAG POCKETS OF POVERTY PROGRAM BE INCORPORATED INTO THE DEVELOPMENT GRANT PROGRAM.

THE RENTAL REHABILITATION PROGRAM HAS MANY ADMINISTRATIVE PROBLEMS AND CONFLICTING OBJECTIVES. I WOULD LIKE TO FOCUS MY COMMENTS, HOWEVER, ON WHAT WE VIEW AS A MAJOR DEPARTURE FROM THE POLICY OF DECONCENTRATION. THE PROGRAM REQUIRES THE CONCENTRATION OF LOWER INCOME PERSONS IN ORDER TO ASSURE THAT MARKET FORCES DO NOT RAISE RENTS. THERE ARE FEW HIGH DENSITY LOW INCOME AREAS IN COUNTIES. COUNTIES ARE NOT INTERESTED IN REPEATING THIS URBAN PATTERN AND FEEL THAT CONGRESS SHOULD BE CAREFUL TO SAFEGUARD THE GOAL OF DECONCENTRATION IN FEDERAL HOUSING PROGRAMS.

I DO RECOGNIZE, MR. CHAIRMAN, THAT THE JURISDICTION OF THIS COMMITTEE IS LIMITED, HOWEVER, WE ARE VERY CONCERNED WITH THE POTENTIAL IMPACT OF TAX REFORM ON HOUSING. WE HOPE THAT YOU CAN WORK CLOSELY WITH THE TAX WRITING COMMITTEE TO ENSURE THAT REFORM MEASURES DO NOT ADVERSELY AFFECT RENTAL AND LOW INCOME HOUSING.

CDBG AND UDAG

THERE ARE TWO FINAL ISSUES I WOULD LIKE TO ADDRESS. THE FIRST RELATES TO THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM. URBAN COUNTIES ARE FACED WITH MEETING A THRESHOLD POPULATION OF 200,000 WHICH IS LARGELY DEPENDENT ON THE COOPERATION OF A NUMBER OF LOCAL UNITS OF GOVERNMENT. THE THREE YEAR OPT-IN PERIOD IS HELPFUL; HOWEVER, COUNTIES ARE STILL FACED WITH THE POLITICAL PROBLEM OF SOLICITING PARTICIPATION FROM CITIES, TOWNS, AND

TOWNSHIPS WHILE AT THE SAME TIME EXPECTED TO DEVELOP A TARGETED PROGRAM WHICH MAY SERVE ONLY A PORTION OF THE COUNTY. COUNTIES HAVE DEALT SUCCESSFULLY WITH THIS DILEMMA BY AND LARGE BUT COULD USE SOME RELIEF FROM CONGRESS.

WE FEEL THAT THE QUALIFICATION PROCESS SHOULD BE SEPARATED FROM THE FUNDING PROCESS. UNDER THESE CONDITIONS, A COUNTY WOULD AUTOMATICALLY QUALIFY FOR CDBG IF THEY HAVE A POPULATION OF 200,000 OUTSIDE ANY METRO CITIES. FUNDING LEVELS WOULD BE DETERMINED SEPARATELY BASED ON THE NUMBER OF COOPERATING JURISDICTIONS AND THE POPULATION OF THE UNINCORPORATED AREA. ACCORDING TO HUD, THIS WOULD ONLY QUALIFY FOUR ADDITIONAL COUNTIES BUT WOULD HELP CURRENT URBAN COUNTIES -- 25% OF WHICH HOVER CLOSE TO THE 200,000 THRESHOLD. WE HAVE DEVELOPED LEGISLATIVE LANGUAGE AND HOPE YOU WILL INCLUDE THIS IN ANY AUTHORIZATION BILL YOU ADOPT.

THE ADMINISTRATION PROPOSAL TO CUT THE CDBG APPROPRIATION BY 10% AND RESTRUCTURE THE URBAN/RURAL SPLIT IS UNACCEPTABLE. WE BELIEVE THAT THE CDBG PROGRAM SHOULD BE FUNDED AT 1985 LEVELS. THIS PROGRAM HAS ALREADY FELT THE STRAINS OF STATIC FUNDING FOR SEVERAL YEARS AND INCREASED DEMANDS AS OTHER SOCIAL PROGRAMS HAVE BEEN CUT.

WE DO NOT SUPPORT A FORMULA SHIFT. WE DO NOT FEEL THAT AN ADDITIONAL $200 MILLION SHIFTED FROM THE ENTITLEMENT CITIES AND COUNTIES TO THE STATES IS A FAIR TRADE FOR A $2.5 BILLION LOSS IN

RURAL PROGRAMS UNDER THE FARMERS HOME ADMINISTRATION. WE FEEL THE FmHA RURAL HOUSING AND DEVELOPMENT PROGRAMS SHOULD BE PRESERVED AT 1985 LEVELS. FURTHER, SINCE RECENT BUDGET COMMITTEE ACTION PRESERVES THE FmHA DEVELOPMENT PROGRAMS, WE FEEL THERE IS NO JUSTIFICATION FOR TAMPERING WITH THE CURRENT FORMULA.

IN RESPONSE TO UDAG, THERE HAS BEEN A GREAT DEAL OF DISCUSSION ABOUT THE CURRENT PROJECT SELECTION SYSTEM USED. WE FEEL THAT FUNDS SHOULD BE AWARDED NOT ONLY TO HIGHLY DISTRESSED AREAS BUT TO AREAS WHICH HAVE EXCELLENT PROJECTS AS WELL. A SOLUTION TO THIS PROBLEM, IN OUR VIEW, WOULD BE A TWO-STEP AWARD PROCESS. LEAVING ALL DISTRESS, IMPACTION, AND PROJECT CRITERIA IN PLACE, A PORTION OF THE FUNDS WOULD BE AWARDED UNDER THE CURRENT SYSTEM. AS A SECOND CUT, THE REMAINING FUNDS WOULD BE ALLOCATED STRICTLY ON PROJECT MERIT. WE FEEL THIS APPROACH WOULD BE MORE EQUITABLE.

MASS TRANSIT

WE HAVE BEEN ASKED THIS MORNING TO ALSO ADDRESS MASS TRANSIT ISSUES. NACo CONSIDERS MASS TRANSIT AS ONE OF ITS TOP FIVE PRIORITIES. MASS TRANSIT IS NOT JUST A CITY PROGRAM. BEYOND THE TRADITIONAL ROLE OF PROVIDING AND MAINTAINING THE ROADS AND BRIDGES OF A COMMUNITY, COUNTIES PROVIDE TRANSIT SERVICES ON A REGIONAL METROPOLITAN BASIS, SINCE COUNTY GOVERNMENTS ARE REGIONAL IN NATURE, THEY ARE IDEALLY PLACED TO PLAN AND COORDINATE TRANSIT SERVICES WITH OTHER COUNTIES, CITIES AND TOWNS.

TRANSPORTATION IS A VITAL COMPONENT IN ANY COMMUNITY'S ABILITY TO GROW, BE VIABLE ECONOMICALLY, AND BE EFFICIENT IN COMMERCE, COMMUTING AND DAILY LIVING. WITH POPULATION GROWTH, INCREASED DENSITY IN URBAN AND SUBURBAN AREAS, AND THE NEED TO KEEP OUR ENVIRONMENT CLEAN, MASS TRANSPORTATION IS AN INCREASINGLY IMPORTANT ELEMENT IN OUR NATION'S OVERALL TRANSPORTATION SYSTEM.

NACo BELIEVES THAT MASS TRANSPORTATION IS A NATIONAL AS WELL AS A STATE AND LOCAL PRIORITY. MASS TRANSPORTATION PROMOTES ENERGY SAVINGS, CLEANER ENVIRONMENTS, LESS CONGESTION, ECONOMIC GROWTH AND EFFICIENCY, AND REASONABLE TRANSPORTATION ACCESS FOR ALL CITIZENS. THESE SHOULD BE NATIONAL GOALS AND PRIORITIES.

REDUCTIONS IN FEDERAL ASSISTANCE FOR MASS TRANSPORTATION ON THE ORDER OF THE ADMINISTRATION'S PROPOSAL WOULD IN OUR JUDGMENT, BE AN INAPPROPRIATE AND DEVASTATING WITHDRAWAL OF THE FEDERAL GOVERNMENT FROM THE INTERGOVERNMENTAL PARTNERSHIP APPROACH TO MASS TRANSPORTATION. FARES WOULD HAVE TO BE RAISED DRAMATICALLY, SERVICES REDUCED OR LOCAL TAXES RAISED TO MAKE UP THE SHORTFALL. IN MANY AREAS ALL THREE EFFECTS WOULD TAKE PLACE. WE BELIEVE THAT THESE PROPOSED CUTS WOULD VIRTUALLY ELIMINATE MASS TRANSPORTATION SERVICE IN MANY COMMUNITIES, PARTICULARLY SMALLER METROPOLITAN AREAS.

IF THE CURRENT SYSTEM IS NOT WORKING, IS UNFAIR OR IS INEFFICIENT, THEN LET US WORK TOGETHER TO FIX IT. LET US NOT JUST ALLOW THE FEDERAL GOVERNMENT TO WITHDRAW FROM THE FIELD UNDER THE GUISE OF

BALANCING THE FEDERAL BUDGET. IF THE FEDERAL GOVERNMENT DECIDES MASS TRANSPORTATION IS STRICTLY A STATE AND LOCAL RESPONSIBILITY, THEN RETURN TO US A PORTION OF THE FEDERAL TAX BASE WHICH HAS FUNDED THE PROGRAM. IT IS SIMPLY NOT FAIR FOR THE FEDERAL GOVERNMENT TO ABANDON MASS TRANSPORTATION AND EXPECT STATE AND LOCAL GOVERNMENT AND THE PRIVATE SECTOR TO MAKE UP THE DIFFERENCE.

MR. CHAIRMAN, THIS CONCLUDES MY REMARKS. THANK YOU FOR THE OPPORTUNITY TO EXPRESS OUR VIEWS ON THESE ISSUES. WE LOOK FORWARD TO WORKING WITH YOU ON AN APPROACH THAT IS BOTH FISCALLY RESPONSIBLE AND RESPONSIVE TO NEED. I ASK THAT A FULL COPY OF MY STATEMENT BE SUBMITTED FOR THE RECORD. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

Senator HECHT. Before I start on my questions, I have a comment about Mr. Geltman's statement about defense spending.

Just for the record I would just like to point out that as a percentage of GNP, outlays for HUD-assisted housing, have doubled over the last decade. In fact, since 1981, housing outlays have increased 35 percent. During this same time defense outlays have decreased as a percentage of GNP.

I just want to put that in the record.

We have—or will be charged by the Budget Committee to make reductions in Community Development, Transit, Housing, and all the other programs, under the authority of this subcommittee and the full Banking Committee.

What are your priorities amongst these programs and can you offer any reasonable approach toward reaching savings targets?

Which one of you want to take that?

Mr. GELTMAN. It seems to me that housing programs are a very significant set of programs that target to low-income individuals, and they certainly need to have a very high priority within your decisions.

It also seems, too, that the economic development programs may also provide some assistance but there may be some room for improvement in the administration of those programs, including the possibility of some consolidation. Not all of them are within the jurisdiction of this committee and that creates a problem.

CONSOLIDATE PROGRAMS

But it seems to me that you do have economic development programs; you have moneys under Farmer's Home Administration for community and economic development; you have programs under HUD. It might very well make some sense to consolidate some of

those programs and that might result in the ability to make some savings in the area.

Senator HECHT. Thank you.

The administration and the Congressional Budget Office indicate that with moneys presently available, we can house more people with a Voucher Program and existing housing, therefore, why do you ask us to spend more dollars per household on new construction?

Ms. DONDERO. As a local elected official, I would say that we have a lot of available housing but not the dollars and not the wherewithal to have that under section 8. If we could somehow get that put together, I would think that it would make more sense to use available housing. But we need to have that section 8 to cover some of those available houses. They're too expensive; people can't move into them.

Senator HECHT. Did you want to comment, Mr. Geltman?

Mr. GELTMAN. Yes, I would, Senator.

I think there's a general recognition that Section 8 New Construction Program is expensive and it resulted in the large expenditure figures that we now see in outlays.

But that's not to say that that ought to be stopped. There are substantial needs in particular areas, both in areas of new development and—I leave it to Commissioner Dundero, the needs in places like Clark County, which are growing very rapidly, may not have adequate housing, as well as other areas where there is in fact a housing shortage.

And that's one of the reasons why I think we're disappointed that the new experiment of the HODAG, the Housing Development Grant Program, which would result in some new construction, which appears to be cheaper than the section 8 new construction, has a moratorium.

VOUCHERS AND SECTION 8 CERTIFICATES

At the same time we do believe that vouchers and section 8 certificates are certainly well worth experimenting with, and they do appear to be cheaper than new construction. Where there is available housing and we have to provide assistance to low-income people, that is a good way to go.

But there are places where there is a problem of supply and it is not possible—at least it does not seem to be possible—to have a private marketplace provide money for low-income individuals in a satisfactory way, and there seems to be a shortage.

So, there still seems to be a need for new construction and we would certainly support this committee trying to find ways which would be a cheaper solution to the problem.

HODAG appears to be one way that ought to be tested. We've just started that process and suddenly that's going to be terminated, at least for a 2-year period of time.

Senator HECHT. I'm a little confused by all the statements that I have heard which claim a critical need for additional units for low-income tenants while at the same time the Federal Government provides subsidies for vacant units. I think our resources should be focused on the needy, not on vacant units.

Why, then, should we continue to subsidize vacancies?

Either one of you want to tackle that?

Ms. DONDERO. That is a tough one for local governments and, of course, I would say that just as a practical matter, you should be putting the people in need into those units rather than subsidizing them and using a voucher system for perhaps providing housing for families and needy people. But I don't know why you should continue to subsidize vacant housing excepting those are probably financed through that program and somehow they need to be on the market.

Senator HECHT. Thank you.

Do you agree, Mr. Geltman?

Mr. GELTMAN. Yes, I think you have to find a way of making sure those units are utilized, including those units which are abandoned, and it seems to me that the Federal Government has a substantial investment in those properties, and it makes sense to keep the properties up and to get those properties filled.

Now, one way—there are a number of experiments going on that HUD is trying, and it is worthwhile examining how well those do, including the sale of some of those units.

Senator HECHT. Thank you.

ORDER OF IMPORTANCE

Including those programs not within this committee's jurisdiction, would you rank in order of importance to your State or membership the revenue sharing, CDBG, UDAG, EDA section 312, and Rural Community Development Program?

Ms. DONDERO. Well, I would like to state for local government, of course, general revenue sharing is probably at the top of our list, and we really need it.

Senator HECHT. OK.

Ms. DONDERO. Medicaid, Community Development Block Grant Programs, because they are local——

Senator HECHT. You would put that No. 2, then, right?

Ms. DONDERO. I would put Medicaid, No. 2.

Senator HECHT. Medicaid, No. 2.

Ms. DONDERO. Community Development Block Grant Program, No. 3. Rural programs, Farmers Home Development and Housing, No. 4, and mass transit, No. 5.

Senator HECHT. Do you share those views, Mr. Geltman?

Mr. GELTMAN. Well, let me say, first of all, that the order of the priorities outside the community's jurisdiction, not including community economic development—I think is stated in the testimony—and it is clear, too, that programs that assist the poor are the ones that would have the highest priority.

In terms of the remaining programs, we would certainly be very supportive of the priorities established by local government, and one of the things that we are so concerned about—and we have four levels of priorities which we have listed in the testimony—the third one is aid to local governments.

And, you know, I would certainly look for a consensus among local governments for those programs that directly benefit them, and to the extent that the U.S. Congress of Mayors, the National

League of Cities, and the National Association of Counties can come to some common mutual agreement, I think that we would be supportive of those priorities.

Senator HECHT. Thank you.

Most of your members are required to have a balanced budget, yet the Federal Government must borrow the money to support the programs which aid State and local governments.

What would you say is the impact on interest rates of this borrowing, and how would your members be affected by a drop in interest rates?

Mr. GELTMAN. I am not sure——

Senator HECHT. If you are not prepared, you can mull over these and give us an answer for the record at a later time.

Ms. DONDERO. All right.

Senator HECHT. I don't want to embarrass you up here.

Ms. DONDERO. I want to tell you that I personally really support the balanced budget, and I wished that all levels of government would live within their budgets.

Mr. GELTMAN. I would like——

Senator HECHT. I want that in the record, please. [Laughter.]

We Nevadans feel that way, don't we, Commissioner?

Ms. DONDERO. You are right.

Senator HECHT. Yes, Mr. Geltman.

Mr. GELTMAN. I would say that we, too, are looking toward a balanced budget over the long term, and we have provided a specific set of directions we think would bring us to a reduction in the deficit which would lead, we feel, to a reduction of interest rates. We think deficit reduction would specifically provide great assistance to local economies, particularly the agricultural economy, as well as the steel and other heavy industries, where interest rates have prevented the investment in equipment and refurbishing those industries.

I assume the competitive position of agriculture has been damaged significantly by the fact that the dollar is so high, which is partly the result of the present interest rates.

But I would like to provide an answer to you on that question in more depth at a later time, with your permission.

Senator HECHT. Thank you very much. You can put it in the record.

[The following information was subsequently submitted for the record from Mr. Geltman:]

Presently, 49 State governments are required by either constitutional or statutory provisions to have a balanced budget. While this requirement helps maintain the fiscal integrity of State governments, it creates severe budgetary problems during economic downturns. In fact, during the past recession over 40 States were forced to make severe spending reductions despite the fact that they also raised taxes, and many States are still trying to restore certain programs back to responsible levels.

The large Federal deficit is undoubtedly causing interest rates to be higher than they otherwise would be. The large borrowing that the Federal Government must do in order to finance the deficit is increasing the overall demand for loanable funds, and therefore is placing upward pressure on interest rates. These higher interest rates have a negative impact on the fiscal positions of State governments. In general, higher interest rates limit economic growth, and this results in slower growth in State revenue and faster growth in State government expenditures. In addition, higher interest rates increase the cost to States to borrow for long-term projects and to alleviate short-term cash flow problems. Conversely, a lower level of interest

rates would benefit economic activity and therefore help boost State government revenue and slow the growth of State government expenditures.

Senator HECHT. I understand that large amounts of transit formula dollars remain unspent by various transit systems.

Shouldn't we reduce the holding time on these funds and utilize them more efficiently for cities where a more immediate need exists?

Ms. DONDERO. Well, I would say yes.

Mr. GELTMAN. I am sorry, I don't know that issue well enough to be able to respond, and I would be glad to respond to that in writing.

Senator HECHT. All right, fine.

[The following information was subsequently submitted for the record:]

Ms. THALIA DONDERO. There are several reasons why transit systems may have unobligated section 9 formula funds. Many of the small systems accumulate formula funds over a several year period in order that they can use these dollars for a major capital facility such as a garage or maintenance facility. Such projects are very costly and often require several years accumulation of section 9 funds. The second problem is that UMTA did not make the formula funds available in fiscal year 1984 until the end of the fiscal year. It takes a certain amount of time for transit authorities to obligate funds once they have been received. For both of the above reasons, NACo would like to see the holding period for formula funds remain at the present 3 year requirement.

Mr. GELTMAN. While current law allows public transit authorities up to 4 years to spend a given year's allocation, it does permit some flexibility to move funds to those areas of greatest need within a given year. States are exploring with UMTA administrative changes which would improve this flexibility provided to the Governors to reapportion or transfer funds within a State. However, it is important to understand some of the reasons why transit authorities choose to stretch out their spending over time. First of all, transit properties, expecially small and medium-sized companies, often save up their allocations over a period of years in order to make one big purchase, such as a bus garage, or to make other large capital investments. That is why one year there may be a high level of unspent funds while another year, there may be little. It is difficult for companies to leverage their capital any other way. Therefore, while some fexibility in the short term is desirable, it is essential that transit authorities be able to meet their long-term transit objectives.

Second, the administration has proposed a 70-percent cut in funds next year for formula and discretionary capital programs. It is not the first time the administration has proposed extensive cuts in, or elimination of, public transit programs. Because of the uncertainties in the continuation of such funding programs, many transit authorities deliberately tend to keep about 1 year's worth of funds in reserve.

There have also been frustrating delays in the approval of grants by the Federal Government. In the last fiscal year, 50 percent of the approvals for discretionary grants were made in the final 30 days of that fiscal year. This has been a serious problem for transit authorities and partially accounts for the time lag in liquidating program obligations.

Finally, an analysis of the spendout cycles involved in the appropriation/apportionment/obligation/liquidation process for transit funding should be performed to determine what a reasonable carryover and unliquidated balance should be. Also, the question should be raised as to how transit compares with other Federal programs. Indeed, preliminary analysis by the American Public Transit Association [APTA] has shown that transit programs do about as well as or better than other Federal programs in terms of large amounts of carryover funds. APTA points to defense programs and other transportation programs for examples of lengthy delays in spending due to investment and other business cycles.

DUPLICATIONS CREATE INEFFICIENCIES

Senator HECHT. Currently both HUD and Farmers Home provide housing and community assistance in nonmetropolitan areas. These duplications of agency programs create costly administrative

inefficiencies at the Federal level. The President proposes consolidating these responsibilities in HUD, which generally runs its nonmetro programs through State community affairs agencies.

What do you see as the advantages of State rather than federally administered programs? Would you comment on the President's proposal to increase the nonmetro area share of community development block grant funds from 30 to 40 percent?

You can answer me later on that.

Ms. DONDERO. All right, I will do that. Thank you.

Senator HECHT. OK.

[The following information was subsequently submitted for the record:]

Ms. THALIA DONDERO. The National Association of Counties does not support a formula shift. We do not feel that an additional $200 million shifted from the entitlement cities and counties to the States is a fair trade for a $2.5 billion loss in rural programs under the Farmers Home Administration. We feel the FmHA rural housing and development programs should be preserved at 1985 levels. Further, since recent budget committee action preserves the FmHA development programs, we feel there is no justification for tampering with the formula.

Mr. GELTMAN. I think that we have no problem with the consolidation of Farmers Home housing programs along with HUD housing programs.

We do have a problem, however, with the elimination of the funding that would otherwise go from Farmers Home but which would not go in that proposal to HUD. The money is terribly significant.

There may very well be some cost savings if the two programs are consolidated. I think there may also be some more sensitivity to State government, possibly better administration if it were provided to HUD.

I know that under the former chairman of this subcommittee there was an attempt several years ago to merge the two programs, unsuccessfully. I don't know where the politics leads you this year, but certainly in theory the consolidation might even be a benefit.

But we would certainly oppose the elimination of those funds.

Certainly, if the funds for the Farmers Home Housing Program is not eliminated, it is hard to see why there is a major reason for shifting the allocation from 70/30 between metropolitan and nonmetropolitan areas to 60/40, and I think that if there is to be a change it ought to be in line with the amounts of money that are being deprived the rural areas. The rural areas ought to be receiving their fair share of funds.

Senator HECHT. Thank you.

And to answer your question, we are just beginning the hearings this morning, but we are going to look into every aspect.

My time is up. Senator Proxmire.

Senator PROXMIRE. Thank you, Mr. Chairman.

First, Mr. Chairman, I want to make it clear that the ranking member of course is Senator Don Riegle. Don couldn't be here because his father is ill. He had to be in Michigan. He has to go back a number of weekends for that reason, as well as for others, and he would appreciate it if the hearings could be held in the middle of the week, although I know that is very hard for all of us. We have duplication of hearings on Tuesdays, Wednesdays, and Thursdays,

and I realize that is a problem. But it is a particular problem now for Senator Riegle because of illness in the family.

Senator HECHT. Senator, we have spoken, I think—we are working everything out right now.

Senator PROXMIRE. Good. Very good.

Now, first, I have great sympathy for you witnesses. You have an impossible job. You are here representing the Governors, representing local government, and you are asking the Congress to move ahead and provide the kind of resources for your programs, which are fine programs, that you have had in past, and in some cases you think you deserve and need, could use more, and you know perfectly well that we can't do it.

There is no way we can do it unless we take some actions that are extraordinarily painful, such as increasing taxes, which the President has said will make his day if we do it because he has got that old veto right in, he is going to veto whatever we provide in more resources.

Let me first start with you, Mr. Geltman. The Governors have made it clear, and you have made it clear this morning that you favor a balanced budget. In fact, they favor a balanced budget amendment, and they feel that the deficit is a serious problem for them, as has been pointed out so well by the chairman, because of higher interest rates, and so forth.

PROPOSALS CHALLENGED

And yet, as I follow your appeal to us this morning and read your prepared statement, you don't come within a country mile of approaching a balanced budget. In fact, I would challenge whether the proposals you make here would very much diminish the huge deficit we have.

Mr. GELTMAN. Well, according to our calculations, our calculations indicate that for 1986 we would be at 3 percent of GNP, that by 1990 we would be at 1 percent of GNP, and beyond that that would put us on a sliding downward glide path.

Senator PROXMIRE. Well, I think I would like to have you submit for the record all of your calculations including—you refer, for instance, to tax increases.

Mr. GELTMAN. Yes; I think in 1986——

Senator PROXMIRE. But you don't say——

Mr. GELTMAN [continuing]. The assumption would be about a $6 billion tax increase for 1986.

Senator PROXMIRE. A $6 billion tax increase?

Mr. GELTMAN. That is right, in conjunction with the other spending.

Senator PROXMIRE. You must be making the kind of airy and happy and unrealistic assumptions that the Office of Management and Budget is making.

Mr. GELTMAN. Well, I hope we are not.

Senator PROXMIRE. We are going to have a terrific expansion in growth with dropping interest rates at the same time, something that is virtually impossible.

Mr. GELTMAN. Well, I think we proceed from CBO estimates, and our executive director is the former Deputy Director of CBO, and I think we tried to be as realistic as possible.

Senator PROXMIRE. Well, give us——

Mr. GELTMAN. But I would be glad to provide those for the record, and I am sure that you will be very supportive of those figures——

Senator PROXMIRE. I wish you would.

Mr. GELTMAN [continuing]. And of our suggestions after you see them.

[See p. 125.]

FREEZING COLA'S

Senator PROXMIRE. Now, there is one recommendation you make for holding down spending with which I would disagree, and that is that you would—and I think—and I could be wrong, but I assume that many Members of Congress, the President at the present time seems to disagree, too—and that is that you would freeze the Social Security COLA's for 1986. In doing that, the allegation is that you would shove 500,000 people into poverty.

No. 2, what you do when you freeze Social Security COLA's is you create a surplus in a dedicated account—by dedicated, I mean that taxes can only be used for that particular purpose—which already has a surplus, and a big surplus and a growing surplus. We took care of that in 1939.

We greatly increased the Social Security tax, which is the most regressive tax we have, as you know. It stops at $39,000. If you make over that, there is no tax at all on the income over that, and you pay the same dollar, the same percentage of your income in taxes, if you make $5,000 or if you make $39,000.

So it is a regressive tax. The only possible excuse for that tax is that it goes entirely for Social Security benefits, which are now running a surplus.

So how can you justify under those circumstances cutting the cost-of-living adjustment?

Mr. GELTMAN. Well, I think part of the way of justifying it is that it, like many other, are middle class and higher entitlement programs which are not means tested, that even though they are placed in a dedicated fund, nevertheless they are part of the calculations overall, whether or not there is a general budget deficit or surplus.

Senator PROXMIRE. Well, you can't do anything with the money. You are running a surplus anyway.

Mr. GELTMAN. Well, I think it does make a difference overall, in the overall economy, in the overall deficit, and it would have an impact on the interest rates themselves.

I would like to provide, if I may, for the record and for those people who are dealing with the area a specific and detailed response to your question and your concerns.

Senator PROXMIRE. I would appreciate that because I have never heard anybody say they would take those funds and use them, for instance, to pay for our military expenditures or for any other expenditures—environmental protection, or education, or whatever.

As I say, they are dedicated for the pensions that people on Social Security receive. It is a transfer payment. Pay it in, as you know, during your lifetime, your employer pays it in, it earns interest. When you retire, you get it back.

And we greatly increased the tax, the Social Security tax, in late 1983. So it is running a surplus.

[The following information was subsequently submitted for the record:]

Mr. GELTMAN. The Governors share your concern with the preservation of benefits to low-income persons. As a result, our policy position supports full cost of living increases for needs-tested benefits. However, we recognize that the well being of the vast majority of our citizens depends upon continued strong economic growth. As a result we are deeply concerned that the continuation of high Federal deficits will slow the rate of economic growth or produce a new economic downturn. While it is true that Social Security taxes are collected and maintained in a separate trust fund, the size of that trust fund does have a direct impact on the total funds that the Federal Government must borrow from the private sector. Congress itself recognized that principle when it included the Social Security programs in the unified budget.

Unfortunately, the necessary savings appear unavailable from other sources. As indicated above, we support full funding for the needs-tested entitlement programs and a freeze on discretionary domestic spending. Further cuts in discretionary domestic programs will have a devastating effect on many programs and services which have an even greater impact on lower income Americans.

If the Federal Government wishes to assist those Social Security recipients near or below the poverty line, it might best do so by considering changes in the SSI program. Such changes would be made at much smaller cost than a general COLA increase for all Social Security recipients. Moreover, such changes could target resources to the poorest Social Security recipients, those whose title II benefits do not exceed 80 percent of the 1984 poverty level, the current eligibility level for a single, aged SSI recipient. Under current law those recipients are essentially denied any benefit from the Social Security COLA as the SSI benefit is reduced dollar for dollar to offset the Social Security increase.

Senator PROXMIRE. Now, Ms. Dondero, you and Mr. Geltman both favor continuing the Revenue Sharing Program. In fact, you made it your No. 1 priority.

It is very hard for those of us here in the Federal Government to just give you that money with no strings attached, not for any program for the poor or for the needy, just give it to you, to justify this.

Now, if I were in your position, if I were a local elected official, that is the money I would want. Why? Because you are unaccountable. You can do anything you want to with it, and if the taxpayers come and say, why are you spending that money on a golf course, or a tennis court, or a swimming pool, or whatever, you say, don't worry about that, that is revenue sharing money.

So you see, it seems to me that what we should do is provide for you the money that you have to have to help the needy, the poor, and the hungry, but to give you revenue sharing money that you don't have any accountability for seems very, very hard to justify.

Ms. DONDERO. Well, Mr. Proxmire, I feel that we are accountable to the people for any money that is raised in the government, and I don't——

Senator PROXMIRE. Let me just interrupt to say——

Ms. DONDERO. All right.

Senator PROXMIRE [continuing]. But you are accountable certainly for the taxes they pay directly, and you are roughly accountable for revenue sharing money, but not in anything like the same way.

And people have told me again and again when they go to the mayor to complain, you say, well, this is revenue sharing money. Uncle Sam provides this, people in New York, California, and all over the country. It doesn't come out of your pocket.

Ms. DONDERO. Well, it does—every tax dollar comes out of——

Senator PROXMIRE. Of course, it does, but it is——

Ms. DONDERO [continuing]. Taxpayers' pocket.

Senator PROXMIRE [continuing]. Quite different if the whole country pays for it instead of Clark County.

Ms. DONDERO. But I have never answered a taxpayer like that in our county because I think you are accountable to the public for whatever tax dollars that are raised, I don't care where they come from, because they are out of my pocket and out of your pocket, and I don't agree to raise taxes. I think that that is a terrible way to just get more money and more money and spend it on more things.

I think that the human needs in a community are very important, and hopefully we use that money to take care of some of those human needs in our community and that we are not squandering or building things that are not needed because those are—as well as the community block grant funds, are really needed because they are spent on needs of that community, and I guess that that is one way of saying to the public is that here is part of your tax dollars coming back to help you in your community.

Senator PROXMIRE. Well, that is a beautiful appeal, but if you say you don't want to increase taxes and you want to continue revenue sharing, continue housing programs and all these other programs, the question is where is the money coming from?

Ms. DONDERO. Well, I think that that——

Senator PROXMIRE. We have this colossal deficit.

Ms. DONDERO. You are right, but all of those programs need to share, as well as defense spending programs. I think that overall we need to look at where the dollars are going, because, look, the defense budget has increased tremendously, and I think that we have a certain responsibility to the community, to the citizen of this country, and of course all of those things are part of that, and I don't envy you, your job trying to balance that out. But I am saying that we need to look at sharing some of the responsibilities in some of the areas.

Senator PROXMIRE. But what Mr. Geltman has recommended, which is that we freeze defense spending except for inflation, will save less than $13 billion in 1986. That is peanuts. We have a $222 billion deficit in 1985. So $13 billion, that isn't even a beginning.

Then he says, well, we will increase it in subsequent years.

Well, I agree with you, and I am sure the chairman does, too, that we want to hold down taxes, reduce them if we can, but I just can't see where what you are proposing to us adds up.

PER CAPITA INCOME

Let me ask you this: is the per capita income in Clark County higher than—that is the Las Vegas area, I take it?

Ms. DONDERO. That is correct.

Senator PROXMIRE. Is that higher or lower than the average throughout the country, or about the same?

Ms. DONDERO. I couldn't answer that overall throughout the country at this particular time. We can provide you with those answers, but I would say that we are a pretty normal community underneath the glamorous Las Vegas part of our community. But we are pretty average, very, very conservative.

Senator PROXMIRE. Well, you are conservative, and I take it that you are close to the average.

My time is just about up, but let me ask: Why can't Clark County, with its natural resources, meet its housing problem itself? Why does it need additional Federal assistance? Why can't you do the job?

Ms. DONDERO. On the housing problem?

Senator PROXMIRE. That is right.

Ms. DONDERO. Because we have more than just our community to worry about. People have been migrating to the West, to the Southwest. We have more and more of the people that are coming from the cold areas to the Southwest, and we have not been able to keep up with the homeless. We have not. They live out of shopping carts. They live in cardboard cartons, in any place they can find, and we have no way as a local government to take care of that shifting population.

Senator PROXMIRE. But consider the problem of those of us who are losing population, go from Wisconsin, where it is a little cold, to Nevada, where it is beautiful and warm, even in the winter.

They go there because there are jobs, and it is a prosperous situation. We are losing jobs, we are losing industry, we are losing income, and we can't see that we should have to pay for people to move into Las Vegas, Clark County, and live in better housing. Better housing is a marvelous objective, but it ought to be provided locally as much as possible.

Ms. DONDERO. Are you saying, then, that you are going to penalize us for having that warm weather and the shifting population and give it to the colder climate communities? [Laughter.]

Senator PROXMIRE. No, of course not. I'm just saying that everybody should pay as much as they can in their local community and Uncle Sam has a big responsibility for defending the country, providing for other absolutely essential Federal responsibilities and local responsibilities ought to be handled locally.

Ms. DONDERO. We're willing to take our share.

Senator PROXMIRE. All right, thank you.

Senator HECHT. Senator Cranston, you're next. Do you have some questions?

Senator CRANSTON. No; I do not have any questions. I have a brief opening statement to submit for the record.

Senator HECHT. You may read it, if you wish.

Senator CRANSTON. No.

[The complete prepared statement follows:]

STATEMENT OF SENATOR CRANSTON

Senator CRANSTON. Today's hearing begins the committee process which will, to a large degree, determine the Federal Government's role in Housing and Community Development Programs for fiscal year 1986. I am greatly concerned that by reducing dramatically the funding levels for Housing and Community Development Programs,

S. 667, the Department of Housing and Urban Development's [HUD] fiscal year 1986 authorization bill, would attempt to balance the budget on the backs of these programs. For instance, this bill would implement the administration's budget for HUD, which would decrease this agency's budget authority from $31 billion in fiscal year 1985 to $7 billion in fiscal year 1986, a $14 billion funding reduction. By comparison, the defense budget would be increased by $29.6 billion in fiscal year 1986.

Congress established HUD for the purpose of providing housing and community development opportunities for low- and moderate-income persons. Such large funding reductions, as proposed by S. 667, would seriously damage HUD's abilities to carry out the mandate of Congress to provide decent housing for Americans.

As stated earlier, S. 667 would attempt to implement the administration's budget for HUD for fiscal year 1986. When this budget was introduced, Secretary Pierce stated that, "We shall continue to meet obligations to help those who are truly in need." However you don't propose to implement changes in the CDBG program that would create a 23-percent funding reduction for entitlement cities and meet your obligation to encourage community development. You don't propose to eliminate the HODAG, UDAG, section 108, and section 313 programs and meet your obligation to provide employment opportunities. You don't propose to eliminate Rural Housing Programs, and you don't propose to place a moratorium on funding for new public housing and section 8 units and for rental rehabilitation grants and meet your obligation to provide adequate housing to low- and moderate-income persons.

I am confident that these hearings will provide sufficient evidence to reject the extreme funding reductions in this year's housing authorization bill and, instead, will provide the groundwork for the establishment of more reasonable spending levels for Housing and Community Development Programs.

Senator HECHT. I'd like to take about 3 of 4 more minutes and I'll give you 3 or 4 more minutes on your questions before—I have a letter from Senator Slade Gorton, and he asks a question which—I won't read the whole letter but just one question for the record:

> Are public housing authorities taking full advantage of the emergency priorities, admissions category to assist the homeless? If not, why not? Why aren't public housing authorities making greater use of vacant units to house the homeless?

Mr. GELTMAN. Most of the public housing units and authorities are operated at the local level, so I'm not equipped to answer that question.

Senator HECHT. Commissioner.

WAITING LISTS IN HOUSING

Ms. DONDERO. I would say, Senator, that we don't have vacant units. We have waiting lists. And I would say that most of the areas in the Southwest have no housing available, that they have waiting lists of 5 to 6 years. And a day doesn't go by that I don't have somebody calling asking for some place to go, some place to live.

Senator HECHT. One last question to you. In your testimony, you indicated that you would be willing to sacrifice other programs in order to maintain level funding for CDBG's and the Assisted Housing Program.

Using your experiences from Clark County, could you give us your personal assessment of the priorities on which this subcommittee should base its decisions for making the reductions?

Ms. DONDERO. Well, as a local person, I think that Community Block Grant Program for this committee and, of course, the Assisted Housing Program. I think that those are our two priorities. And those are the things that we would most like to have. And the other programs, I guess we would have to look at.

But, as I stated before, I think when you look at sharing some of the moneys available in some of the programs, but I would say those are our priorities as local government officials.

Senator HECHT. Thank you very much.

Any other questions?

Senator PROXMIRE. I just have one other question I'd like to ask Mr. Geltman.

STATE SURPLUSES

Mr. Geltman, the national income and product accounts for State and local government show a preliminary estimate of $9.5 billion surplus in 1984, compared with a $6.6 billion surplus in 1983, and $1.9 billion deficit in 1982.

Furthermore, the National Association of State Budget Officers estimates the State yearend balances will be $4.3 billion in surplus in 1985 after reaching surpluses of $2 billion in 1983 and $5.8 billion in 1984.

Meanwhile, the Federal Government runs, as I say, the biggest deficits in the history of this country by far, an enormous national problem. Why can't the States use their surpluses, which, indeed, are modest, but at least they're surpluses, to meet these problems rather than calling on the Federal Government to continue this great expenditure?

Mr. GELTMAN. Well, first of all, I think that the NGA and NASBO estimates of budget surplus are probably more accurate than the national income product accounts, probably because they take in a number of their dedicated funds, which are not in fact available for general expenditure. Similar to the point I think you were making with regard to the Social Security trust fund.

Now, in terms of the surpluses available, we said that it would be about $5.2 billion of surplus available, or 2.9 percent of State spending for fiscal year 1985. But 50 percent of that surplus is in five States. There are 28 States that have balances well below 3 percent.

And if you take a look at the estimates of Wall Street analysts in terms of their bond ratings, they suggest that States ought to have a 5-percent budget balance in order to have a safe figure, and in order to maintain an AAA rating.

Now the balances that we're talking about are significant in the sense that they're positive. But, in terms of dollar amounts in any individual State, they're not considerable. And what they do is provide for the amount of money to take care of bad revenue forecasting. We have a constitutional requirement in 49 of our 50 States that we have balanced budgets. If we have the surpluses of 1 or 2 percent, a bad forecast on the revenue side, and we certainly faced significant problems in 1982 and 1983 in making those forecasts, what the result of that is is that Governors and legislatures may have to go back two and three times in order to raise revenues

during the course of a single year in order to meet the requirement to balance the budget.

So we're not talking about very, very significant money in each State individually. In the aggregate, it appears like a lot of money, and particularly when five States account for 50 percent of that surplus.

Beyond that, it's very difficult for us to go ahead and respond to what you find are Federal priorities. The reason why so many of both tax expenditure programs and direct spending programs are there is because they meet needs that you all feel have to be met. They're your priorities. And when you cut them out, you're also cutting out your priorities.

I mean, part of it is the sense of what you all think has to be done. And, you know, our priorities, as we listed, are to take care of poor people and distressed communities; they are our first priorities. And we think that that's where you ought to direct your attention as well. And those programs that have less priority ought to be cut out.

Now we're taking a look at the programs here, we're talking about EDA, CDBG, and UDAG, and those programs have distress criteria. They are targeted for low- and moderate-income communities.

We're talking about housing programs and housing programs are also targeted to low-income folks, as opposed to the tax subsidies for mortgages for housing, $40 billion of which, most of which will go to middle- and high-income people.

So we see these are the people—low-income people in distressed communities—that ought to be helped. And these programs target to that need.

Senator PROXMIRE. Mr. Geltman, you put it extremely well. I don't want to ask any further questions but I think it would be very helpful. You've got a fine mind. You understand what's going on very well. I hope you'll give us in detail exactly how you would arrive at your balanced budget for the Federal Government while making the kind of contributions to State and local government of these high priorities that you have at the same time.

Mr. GELTMAN. Well, not only will we give you figures but I think the Governors have volunteered their support to do whatever politically they can to help you arrive at that end result.

[The following information was subsequently submitted for the record:]

Mr. GELTMAN. Thank you for the opportunity to respond to your challenge on whether the National Governors' Association budget policy would indeed lead to a substantially reduced budget deficit. First, I would like to point out that by simple definition, our policy would result in a deficit equal to about 3 perent of GNP by fiscal year 1988 and 1 percent of GNP by fiscal year 1990. This is so because in addition to the spending cuts and reforms we propose, we also call for tax increases sufficient to reach the deficit targets as we recognize, for a variety of reasons, that the cuts may fall short of the goal.

First, we propose to hold-harmless from any reduction a category of programs we define as selected means-tested programs. They include SSI, food stamps, AFDC, Child Nutrition Programs, Medicaid and the Social Service Block Grant. The Governors believe that these programs have been substantially cut in the past form an essential part of the Federal responsibility to the Nation's poor. With ranks of those in poverty growing, sound and fair public policy argues for a stronger, not weaker Federal involvement in these programs. We called for no savings in this category. For defense spending the NGA policy calls for a freeze in real defense spending for fiscal year 1986 and then holding down the rate of real growth in subsequent years to between 1 and 3 percent. Based on a 2-percent real growth rate in the outyears we estimate the savings as follows:

Fiscal year:	Billions
1986	$7
1987	14
1988	25
1989	37
1990	51

These savings are from the CBO baseline.

In the category of nondefense discretionary spending NGA policy calls for a freeze in fiscal year 1986 and limiting the overall growth in the outyears to one-half of the rate of current services growth for this category. Over one-half of all grants-in-aid are in this category of programs. Our estimate of saving are:

Fiscal year:	Billions
1986	$6
1987	10
1988	14
1989	19
1990	26

NGA believes that major savings can be found in entitlement spending that would include such programs as Medicare, Social Security, farm price supports and civilian and military retirement programs. NGA policy specifically calls for a 1-year freeze in Social security COLA's. In this category NGA calls for the following savings:

Fiscal year:	Billions
1986	$9
1987	14
1988	18
1989	22
1990	27

Finally, as a result of these reductions in spending and tax increases as necessary to reach the targets, there would be substantial savings on net interest. We estimate these savings to be:

Fiscal year:	Billions
1986	$2
1987	9
1988	15
1989	30
1990	39

The total net savings would be:

Fiscal year:	Billions
1986	$24
1987	47
1988	72
1989	108
1990	143

Using CBO's February deficit projection, NGA would achieve its budget policy in the following manner:

[In billions]

	Fiscal year—				
	1986	1987	1988	1989	1990
Deficit	$216	$232	$249	$271	$295
Spending reductions	−24	−47	−72	−108	−143
Tax increases	−5	−24	−32	−59	−96
Remaining deficit	187	161	145	104	56
As percent of GNP	4.5	3.6	3.0	2.0	1.0

Attached to my written statement is a copy of our budget policy which describes all of the features contained in this response. As you can see from above, the NGA policy is indeed a credible proposal for reducing the deficit. It does not exclude State and local governments completely from cuts despite the fact that this area of the budget has already made a large contribution to deficit reduction in past budgets. Still, we maintain that fairness in deficit reduction means that there must be preservation of the means-tested programs and a slowing of the growth of defense.

Senator HECHT. Thank you. Senator Cranston.

Senator CRANSTON. I just have one question for you, Mr. Geltman. Secretary Pierce states that, "HUD is not getting out of the housing business." However, the authorization bill for HUD, submitted by the administration, could certainly be interpreted as a major step that will ultimately lead to the elimination of the Federal Government's role in seeking to provide safe, decent, and affordable housing.

You state in your testimony that you believe that it's the Federal Governments responsibility to assure that low- and moderate-income people are provided a decent home and a suitable living environment.

What is your impression of the administration's plans?

What is your impression of what they intend to do, if anything, to promote housing over the long haul?

PRESENT COMMITMENT TO CONTINUE

Mr. GELTMAN. I would say that it's not accurate to say that the HUD and the Federal Government is getting out of housing altogether. They do have an existing commitment. As far as I can tell, most of that existing commitment to people who are presently being served will continue.

The question is, I think, in terms of the budget proposal for 1986 and 1987, whether additional parts of the need are going to be addressed. Our understanding is that rental assistance commitments financed to date are expected to be sufficient to serve only about one-third of all very low-income renters.

In federally subsidized mortgages, it is only about 1 in 10 of all low- and moderate-income homebuyers in any year.

These are figures from the Congressional Budget Office based upon testimony that was provided on March 7 before the Housing Consumer Interests Subcommittee of the Select Committee on Aging of the House of Representatives.

So I think, apparently, it's a question of whether you feel the present need out there is being adequately addressed. And I think we certainly feel that there's a need for further Federal assistance, and that it's not adequate.

We certainly do not at this point support the moratorium that is contained in the administration's budget request. We think that, as we've indicated, level funding ought to be made available in the

housing area, frozen at the 1985 level. There probably is a bigger need than that. But, given the constraints that we must put on our programs to keep the deficit down, I think we have to put some limits in meeting that need. And we think freezing at the 1985 level is an appropriate way to go. And we think that what that will result in is adding about 100,000 additional households under HUD programs and 80,000 new households through the principal Farmers Home Loan Programs.

Thus, we think that there ought to be additional programs going on; if we provide them assistance at the 1985 levels, we will be able to provide some additional units of housing which are very much needed out there for poor folks.

Senator CRANSTON. Thank you.

Senator HECHT. Thank you both very much.

Now may we have the second panel?

Before we begin the second panel, Senator Cranston has a welcoming.

Senator CRANSTON. Helen, I'd just like to say a word of welcome to you. I'm delighted that you're here. I have great respect for Yerba Buena and your administration of it. I am sorry I won't be here to hear all of your testimony, because I have another commitment I have to meet. Welcome to you and to the other members of the panel also.

Senator HECHT. OK. Let us begin our second panel. I ask that you hold your remarks to 10 minutes, and if you do go over, I will interrupt you and ask you to summarize for 1 minute.

Our first panelist, Mary Ann Russ.

STATEMENT OF MARY ANN M. RUSS, EXECUTIVE DIRECTOR, WILMINGTON HOUSING AUTHORITY, WILMINGTON, DE, REPRESENTING COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES

Ms. RUSS. Thank you. As you say, my name is Mary Ann Russ. I am the executive director of the Wilmington Housing Authority in Wilmington, DE, and I'm here representing the Council of Large Public Housing Authorities.

Wilmington is not, in the universe of large public housing authorities, that large a public housing authority, but we have many of the same problems that larger authorities have. Wilmington is a an older, Eastern, urbanized place, and I guess we're sort of a microcosm of what's good and what's bad about public housing.

The Council of Large Public Housing Authorities is an organization of about 40 of the largest public housing authorities that manage over 40 percent of the Nation's conventional public housing stock.

I, like everyone else, congratulate you on your position, Mr. Hecht.

Senator HECHT. Thank you very much. I appreciate it.

Ms. RUSS. It's a very important job.

Senator HECHT. Thank you.

Ms. RUSS. I hope you're looking forward to it.

Senator HECHT. I am.

PUBLIC HOUSING

Ms. RUSS. And I also thank you for the opportunity to talk about this, because public housing is something that is very important to me and also to the 10-million people who live in assisted housing in this country. I think everybody here, even without your opening remarks, understands that this is a year in which cuts are proposed for many, many programs and housing is just one of them.

At the same time, in your opening remarks, you stated that we must continue to provide assistance to those most vulnerable in our society and failing to do it would be disastrous. I was taking notes.

I put it to you that in public housing, that's exactly who you're looking at. Those are the people who are the most vulnerable in our society, and I think before you look at cuts in public housing, it's important to understand just exactly what impact that's going to have on those people.

We're at the bottom line. You said you expected us to say "We've already taken our lumps." That was a reasonable expectation, because we have. We really have taken a lot of cuts, and in public housing, at this point, it's really going to be difficult to cut our problems without severely imperiling the quality of life of the people who live there, never mind the people who aren't fortunate enough to be there. And I say fortunate, understanding what public housing is and looks like. Even if you look at the very worst of public housing, dollar for dollar, it's a great bargain for the people who live there and for the government.

Let me give you a little bit of background on the program.

We start with the Housing Act of 1937, which provided for the beginning of the Public Housing Program. Now of course the 1937 act—had to do with slum clearance, jobs, and housing the working poor. The vehicles for this were local public housing agencies created under State enabling legislation. The Wilmington Housing Authority, like most public housing authorities, was activated by the State government and is a separate public body. We cannot rely on the tax revenues of the city of Wilmington. And our indebtedness is not the indebtedness of the city of Wilmington. This is fairly common.

The Federal Government assisted public housing at the beginning by guaranteeing the tax-exempt bonds issued by these local agencies with the full faith and credit of the Federal Government. It repaid the principal and interest on these bonds through annual contributions. And that establishes the contractual relationship between the public housing agency and the Federal Government. It's this annual contribution contract. It's a long-term contract.

At that time, public housing authorities charged rents to their residents that were based solely on their cost of operating, which included the cost of utilities. There was no set Federal formula about how these rents should be calculated.

Now in the 1950's and 1960's, the character of public housing did change. Increasingly, the working poor were migrating to the suburbs and one reason for that was a Federal rule at the time that had an income limit on continued occupancy. If your income went up too much, you had to go. That no longer exists, but it was a reason for the change.

HOUSE THE INDIGENT

Now we house the very poor, and in my testimony, I've given you some national information but also I thought you might be interested in just what the situation is in Wilmington. We house 2,442 families, and of those, 1,804 have gross incomes of less than $5,000 a year. In fact, only 59 of our families have gross incomes over $13,000. And this is in a city that has a median income for a family of four of $29,375. These are surely the most vulnerable people in our society.

Then, in 1968, the Federal Government passed the Brooke amendment and got into the business of establishing rent formulas. It said that at that time, a tenant's rent shouldn't be more than 25 percent of the family's income.

This, of course, reduced our operating revenues, and in the early 1970's, the Federal Government also began subsidizing operating expenses. The vehicle for subsidizing operating expenses is the performance funding system. It's a complicated formula that's designed to project how much it ought to cost a well-managed housing authority to operate its units, and it includes the age of the unit, the height of the building, the number of degree days in the year, and so on.

An important thing to understand about that formula is, all the income is backed out. If we experience an increase in rent, because our tenants' incomes go up, which is the only way we experience an increase in rents, what happens is, the subsidy goes down. It is, in fact, kept. The years of collecting rents, based solely on the operating costs, and then the early years of the performance funding system, with probably some less than top management, had us entering the 1970's with a housing stock that was severely deteriorated. In Wilmington, our oldest units date from 1942, and then we have 1,161 units built before 1960.

We, like a lot of other housing authorities, didn't have sufficient operating reserves to perform the modernization that was needed to our buildings and also to make the kind of improvements that would make the buildings themselves more efficient. And that is why the Modernization and Comprehensive Improvement Assistance Programs were created. They were created to provide capital improvements to this aging housing stock. They're provided to protect the Government's investment and the local agency's investment in these properties.

Now earlier, you asked a question about subsidizing vacant units. Vacant units are vacant for a variety of reasons. We have two types of vacancies in Wilmington. And one type, we're not going to be able to turn over until we get the modernization money to do something for these units. They've been vandalized, they've been trashed, they've been vacant for many years, because they're uninhabitable. They're not vacant because there isn't somebody waiting there. On the contrary.

We also have vacant units in our elderly buildings because the market is overbuilt. We have a very interesting dichotomy. On the one hand, we have a large waiting list for our family units and a very small turnover rate, and we can—when a unit is ready, we have somebody in it within 24 hours. We are not inefficient.

In the elderly units, on the other hand—I've got 115 elderly units in highrises that are vacant that I cannot fill, and I guarantee you when somebody walks in, if they're capable of living independently, they can go right in, but in fact, the market's overbuilt. And it's not just our building. There are a lot of 202's, and section 8's for the elderly. And this phenomenon is not unique to Wilmington. Elderly housing was much more popular to build. So there is a glut in many places where there is a shortage of family housing.

Now, I guess what I am saying is that I believe the programs exist to do what needs to be done in subsidized housing, but they need funding to do it, and if you are really serious about trying to take care of the truly needy or the most vulnerable, housing is one of the things that has to happen, because, you know, as I pointed out, with the income of the people we house, they can't march out and find housing on the private market.

Senator HECHT. Anything you want to summarize?

Ms. RUSS. Yes, I'd like to say——

Senator HECHT. I'll give you 1 minute to summarize; OK?

Ms. RUSS. OK, here I go. [Laughter.]

Shifting into high gear.

Senator HECHT. Fine.

Ms. RUSS. What we recommend for public housing is a funding level of $1.4 billion for the coming year, and of that, we're suggesting that $100 million of it be used to address the previous problems with the performance funding system and to add an appeals process to that. And we recommend a $2 billion level for modernization, which is significantly above the administration's recommendation of $175 million. Now, $175 million will not even take care of the emergencies.

Senator HECHT. Thank you very much.

Ms. RUSS. You're welcome.

[The complete prepared statement follows:]

Testimony of MaryAnn M. Russ, Executive Director
Wilmington (Delaware) Housing Authority
on behalf of
The Council of Large Public Housing Authorities

Mr. Chairman, other committee members, committee staff, and honored guests, on behalf of the Council of Large Public Housing Authorities (CLPHA), I would like to thank you for inviting me to testify before you today about important issues affecting public housing. My name is MaryAnn Russ, and I am the Executive Director of the Wilmington (Delaware) Housing Authority. CLPHA is an organization of nearly 40 large Public Housing Authorities (PHAs) that together manage over 40% of the nation's conventional public housing stock.

First, Mr. Chairman, allow me to congratulate you on becoming Chairman of this very important Senate Subcommittee. As you are aware, your Subcommittee has the responsibility for authorizing legislation which directly affects the daily lives of approximately 10 million Americans now living in the nearly 4 million units of federally assisted housing units throughout the county. It also determines whether or not other needy, homeless, elderly, handicapped or very low income persons will be able to receive housing assistance in the future. The work of this Committee, therefore, directly affects the lives and quality of life of millions of needy Americans. We look forward to the opportunity of working together with you and the other members of the Committee in the future to address these important needs in the most effective way possible.

Second, Mr. Chairman, I would like to point out the very special character of the programs which this Subcommittee is responsible for, especially the public housing program. This is the year in which deep cuts are being sought in the whole spectrum of federal domestic programs, such as assistance to farmers, Amtrak, and the student loan programs. Many of these programs are popular politically, and their advocates are

mounting highly visible campaigns to oppose any spending cuts. Low-income housing programs, in contrast, serve the poorest of the poor, a group without a well-financed political base. Of the 2442 families housed by the Wilmington Housing Authority, 1804 have gross incomes of less than $5,000 per year. Only 59 families have gross incomes over $13,000. To put this in perspective, the median income for a family of four is $29,375.00 Basic survival is the issue which is at stake here, and this is a need which cannot be postponed until a time when the budget deficit has been reduced by forty, or fifty, or sixty billion dollars. We don't believe that there can be a one-year or two- year moratorium or "freeze" on survival and we would like to work with you and your committee to ensure the special protection of these programs for the very poor, the needy and the homeless.

Both Senators Dole and Domenici have, during the past several months, stated that it is not their intent to achieve cuts in the deficit by harming the poor. We support these statements and hope that they will be given practical effect in the work of the Budget, Authorizing and Appropriations Committees.

Mr. Chairman, let me review briefly the history and purposes of the public housing program. These purposes have changed substantially since the program was originated in 1937, nearly 50 years ago. At that time, the stated objectives of the program were slum clearance; providing jobs to the unemployed (during the Depression); and expanding the supply of decent, sanitary housing available to working people in crowded urban areas. The federal government provided subsidies that were adequate to cover principal and interest on development costs. Operating costs, including utilities, were covered by tenant rents.

Today, public housing is a much different creature, serving a much greater variety of needs. From the handful of cities that initially joined the program, participation has expanded to over 2800 Public Housing Authorities across the nation serving an even greater number of communities.

In the 1950's and the 1960's, the tenant population in public housing changed significantly. As the movement to the suburbs swept the country, many of the so-called "working poor" moved out of public housing. As a result, public housing increasingly served the <u>very</u> poor. This put new strains on local Public Housing Authorities (PHAs), financially, socially and politically. Wilmington Housing Authority houses ten percent of the city's population. Of Wilmington's 2442 public housing families, 983 receive public assistance, 424 receive SSI and 1019 receive social security. 317 families have a disabled or handicapped family member. 248 families were displaced. 1958 are headed by females.

In 1968 the rents Public Housing Authorities could charge were limited by statute to a percentage of their tenants' incomes. In the early 1970's Congress recognized that public housing could not continue to serve very low income people satisfactorily and still rely solely on rents for their operating income. As a result, Congress established the operating subsidy program, which provides subsidies to PHAs equal to the difference between their allowable operating costs, including utilities, and their rental and other income. Nationwide there are now over 1.2 million conventional public housing units. Their operating costs average out to be about $2,000 per year per unit (excluding development, modernization and tax subsidies), for a total of about $2.4 billion. Of this amount, about half comes from local PHA income (overwhelmingly

rents) and the other half is provided by the federal operating subsidy. As a result of rising energy costs in the 1970's, the proportion of their operating budgets which PHAs spent on energy has grown enormously, and is now over 40% of total operating costs -- a figure which is effectively beyond the control of the PHAs except as they can figure out new ways of saving energy and modernizing their buildings to achieve these savings.

In the late 1970's, the Congress further recognized that these operating subsidies were insufficient to allow PHAs to build up capital improvements reserves that would allow the renovation, repair and modernization of the public housing stock, Congress therefore began to provide annual funds for public housing modernization, and in 1980 authorized the Comprehensive Improvements Assistance Program (CIAP), for which substantial sums have now been provided for five years (FY81-FY85). As a result of this program, major advances have been made in restoring the nation's public housing stock to standard condition. Many PHAs are near to completing their modernization work; others, particularly those that started out with an older, more obsolete or deteriorated stock, have several years to go before this work will be finished. A nationwide study of modernization needs in public housing is underway to determine exactly where we stand -- Your Staff Director, Philip Sampson, ably chairs the Research Advisory Group of PHAs to this study.

Now, in the middle 1980's, federal low-income housing programs are called upon to meet a broader variety of needs than ever before. In most communities, PHAs still must serve the poorest of the poor. Urban vacancy rates are lower than ever, especially in low-cost rental housing. [For example, less than two percent in New York City and in Wilmington, Delaware] There are growing problems of homelessness. And, perhaps most

important, there is a lack of alternative choices for the poor. The supply of low-cost rental housing in our urban and rural areas has not kept up with the demand, and is less likely to do so in the future as the government considers further steps to reduce the tax advantages of rental housing investment.

What are the real consequences of these trends? One consequence is that households in unassisted housing have to pay an increasing share of their very limited resources just for housing, and for very low-income households in the private rental market this ratio can run to 50%, 60% or higher. Another consequence is overcrowding, and this extends into public housing itself. The New York City Authority manages about 175,000 units, but estimates that the number of households occupying these units is over 30% higher, about 225,000, as a result of doubling and even tripling up in some units. We have the same problem in Wilmington, albeit on a much smaller scale.

At the same time, public housing waiting lists are growing. A recent study by Citizens Housing and Planning Association in Boston indicated that for every three family units in public housing there are two households on the waiting lists for the same housing. And the ratio is growing. In some cities, such as New York, it would take 20 years for a household to move from the bottom to the top of the waiting list, and the Executive Director there says you're more likely to die than get in. Many PHAs have simply stopped taking applications because they know it would be cruel to encourage people to believe they had a practical chance of getting a unit.

In Wilmington we have a waiting list of 989 families and the list has been closed for 14 months. We receive 60 to 65 calls per week from

people who want to get on our waiting list. The average family on the list has been there for nearly two years and is currently doubled up with other family members or friends or living in grossly substandard conditions.

The last time we opened our waiting list we did it on a Saturday because we knew what to expect. The line of families filled the available space and the parking lot. We took over 1000 pre-applications.

<u>What are the principal concerns that I am bringing before your committee today</u>?

<u>To summarize, we are asking you to maintain and not reduce your committee's support for the currently existing public housing stock</u>.

We recognize that this may be a year in which this Administration and your committee may be very reluctant to authorize any expansion of the assisted housing stock for low-income families and the elderly. But let us then, in this difficult budget year, do everything we can to minimize the damage that might occur to our <u>existing</u> stock of public housing units, a very precious resource. The replacement value of the current stock is about $78 billion. A real estate operation of this magnitude needs to have a steady, stable flow of operating and modernization funds in order to ensure the continued quality and availability of these units as standard housing for low-income people. Once we lose these units through deterioration, decay or neglect, they are extremely difficult to restore to occupancy later on. They become targets of vandalism, and much greater amounts of modernization funds need to be spent in the future to restore them to occupancy.

<u>Public housing is one of the most cost-effective ways of providing low-income housing assistance</u>. Average federal operating subsidies are about $1,000 per unit per year; and even when development and modernization subsidies are added to this, the total direct federal subsidy outlay does not exceed $5,000 per unit per year -- a price which includes the cost of eventual ownership of the units by the Public Housing Authorities. After this point, the units have a continued life span with substantially reduced federal subsidies which results in a lower average cost over the entire life of the units. In contrast, other forms of subsidized housing development have required up to two times this level of annual federal subsidies. And the rental assistance programs, while very effective and desirable in many communities have become virtually unworkable in many communities such as Wilmington because of the unavailability of additional units to bring into the program under the current regulatory restrictions

So what we are requesting from your committee is a basic level of effort to maintain the existing public housing stock through $1.3 billion in operating subsidies for FY86 (total authorization, including carryovers, if any), and $2 billion in modernization funds under the CIAP program in FY86. We further recommend that the program be expanded by an authorization covering 10,000 additional public housing units.

Mr. Chairman, we understand that public housing is a complicated, sometimes distressingly untidy program that is not without its blemishes or its opportunities for improvement. And we have worked with this committee over the past several years to suggest a variety of improvements.

1. CLPHA recommends a 1.4 billion authorization of which 100,000,000 would be used to correct previous deficiencies caused by the Performance Funding System formula and to add an appeal process for costs beyond control.

I personally come from a background which includes 17 years working in low-income housing. Of these, four years were at the National Center for Housing Management where it was my job to train managers and administrators of publicly assisted housing. While at the Wilmington Housing Authority I have been especially interested in what we can do in the areas of improving staff productivity, modernization and project based management. As a result, we have saved 1.9 million dollars in the past five years.

Over the past several years CLPHA has also worked with this committee to try to stabilize the rules of the game in order to provide continuity and predictability in the public housing field -- which, again, involves the task of managing a large, standing stock of housing in which an enormous investment of public funds has already been made. We have suggested many improvements in the public housing program to the staff of the committee, most of which are cost-free to the federal government and which we believe would result in a decrease in federal costs over-all. We have recommended the establishment of a management review committee, consisting of the PHAs and HUD jointly, that would establish management performance measures and provide peer group technical assistance to those PHAs that most need it.

And we have been gratified by the response of your committee, which has consistently supported the operating subsidy at 100% of the amounts calculated to be needed under the Performance Funding System (PFS) formula; as well as supported the CIAP program over a period of several years at close to the $2 billion level. This kind of continuity and stability is of the greatest value to PHAs as they seek to manage and maintain their units effectively.

The Administration's budget request for cutting operating subsidies for FY86 to only $1 billion, would severely endanger the ability of PHAs across the country to survive. Even a ten percent cut in operating subsidies from the federal government means, on the average, close to a 17% reduction in operating budgets exclusive of utility costs for most PHAs -- since those utility costs must be paid. Our FY85 Operating Budget is 7.9 million of which 3.8 million is utility costs. Our entire operating receipts are $3.6 million and our operating subsidy is $4.3 million.

If the Administration's budget request were adopted and applied evenly across the board, Wilmington would lose thirty percent of its operating funds after paying for utilities. We cannot bear that cut. Our average operating cost per unit per month is only $257, including all utilities. I do not know that anyone could manage our units more efficiently than we do. We have a lean organization. We do not duplicate services provided elsewhere. A thirty percent cut in our operating budget could only be accomplished by cutting essential services. Vacant units would remain vacant. Maintenance would be deferred. Our elderly residents would have to find support services through their own means. The units and the quality of life would deteriorate.

We have no means to increase our income, because any increases in rents or investment income result in decreases in operating subsidy. If subsidy is cut, low-income families will suffer.

We recognize that there are severe budget constraints this year, and that your committee has to struggle with these issues; but we also believe that cutting into the operating subsidies and modernization funds

for existing public housing units would have serious consequences for years to come and damage a vital resource serving low-income people.

One final word on the budget issues, Mr. Chairman. We have long felt that housing was first across the line in this Administration's efforts to deal with budget deficits. The budget authority for new assisted housing programs has shrunk from $32 billion four years ago to only $10 billion now. Assisted housing programs have therefore given up two-thirds of their substance to this issue long before other domestic programs were called upon to do anything -- to say nothing of the defense budget. We can't help but note that while we've given up over tens of billions in annual budget authority, the deficit has nevertheless continued to mount rapidly. We have given a lot, Mr. Chairman, and believe that this is not the time to devastate what remains of the assisted housing programs.

We have felt strongly that Senator Garn initiated a plan -- something that other programs would have done well to imitate, and that in FY83 and FY84, Mr. Garn sat down and said we can't do all that everybody wants us to do, and in that context he developed a kind of "worse case" housing solution. Part of that package was that there would be full support of existing public housing operating subsidies and modernization; a reduction in new development; and a continuation of about 100,000 incremental units a year. This plan is one that, while we find it constraining, represented a compact between the Administration, the Congress and the public. If other areas of government had developed a similar plan in the last several years to constrain themselves, our contribution to the budget deficit might have shown some impact.

I'd like to close with brief comments on three non-budgetary issues:

1. Public Housing Homeownership. As I have mentioned above, I and the other public housing directors are always looking for better ways to run the public housing program. There may be some instances where the sale of units to the tenants who live in them would work. In that case, I would like to ask that the federal government guarantee that there will be a one-for-one replacement of those units by the federal government if there is still a need in the community. More frequently, however, I would expect that the persons who need the units the most would not be in a position financially to be able to afford even the utility costs, much less the carrying costs on the units. This is true if you offer the units with a substantial write-down in the acquisition costs. And in many cases there would be a reduction in the supply of housing available to low-income people at a time when the need is growing. In Wilmington the Board of Commissioners elected not to participate in the Administration's Homeownership Demonstration for two reasons:

- They were unwilling to reduce the public housing stock when there is such a critical need for for it; and
- Our highest income residents would have great difficulty paying for the debt service, taxes, insurance, utility and maintenance costs for the units.

2. Tax-Exempt Financing. Since its inception, the public housing program has had its development (and more recently, modernization) costs financed through tax-exempt borrowing in the private market. At the present time, this tax-exemption is being threatened by what appears to be the inability of HUD and the IRS to deal with what all Congressional sources indicated should have been minor problems arising out of the Tax Reform and Deficit Reduction Act of 1984, a bill that extended certain

provisions of the tax code, for example, limiting arbitrage, to public housing securities. As a result, a history of over 45 years of successful financing through the tax-exempt method has been needlessly disrupted. We fail to understand why HUD is trying to undo this stable financing method when it cannot show that there would be any savings at all to the taxpayers.

3. Section 8 Program. Finally, let me say that we are all very concerned about the future of the Section 8 "existing" program. This has been a highly successful program, and one that has now grown in size to provide a major resource for PHAs to meet the needs of their low-income families and the elderly. Yet HUD continues to tinker with this program as if the conscious objective were to kill it. HUD is proposing to freeze the Fair Market Rents, which determine the assistance levels, even though they are currently set so low that success rates are miniscule in many communities. In Wilmington, for example we believe we are already assisting 80 to 85 percent of the eligible units under the program with our 375 units of Section 8 Existing. Most immediately, HUD is trying to establish by handbook change a reduction in the fees provided to PHAs for the administration of the Section 8 program. Even HUD staff admit that they are making this change without knowing what its impact will be on the PHAs' ability to manage the program; the only reason is to comply with federal deficit reduction goals. The federal government simply can't work this way. It needs to have some reasonable, factual way of making decisions. And this is particularly offensive since Congress in the FY85 Appropriations Act directed HUD not to change this fee structure until it gave Mr. Garn a report dealing with the elements of PHA administrative costs and how the fee structure related to these costs.

So we continue to seek your help, Chairman Hecht, and that of the other members of the committee, and the committee staff, in fighting HUD's arbitrary and destabilizing changes in the rules of the game.

We know that you are concerned with good management, and the most effective use of existing resources, and so are we. We would like to work with you to achieve these common goals.

I want to thank you for your patience in letting me air these numerous concerns with you today, and would be happy to try to answer any questions which you or the other committee members may have.

Senator HECHT. Our next witness is Mr. Barry Zigas. Did I pronounce that right?

Mr. ZIGAS. Just right.

Senator HECHT. Thank you.

Mr. ZIGAS. Thank you. I don't hear it pronounced right often enough.

Senator HECHT. I just got lucky.

Mr. ZIGAS. I appreciate it.

STATEMENT OF BARRY ZIGAS, PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION, WASHINGTON, DC

Mr. ZIGAS. Mr. Chairman, my name is Barry Zigas. I am president of the National Low Income Housing Coalition. The National Low Income Housing Coalition is an organization of individuals and other organizations providing advocacy services for low-income housing. We have members in every State of the Union. We represent tenants in assisted housing, owners, and developers of privately and publicly owned subsidized housing and advocates throughout the country who are working at the local level to provide desperately needed housing for low-income people.

I'd like to take this opportunity to add my congratulations to those who have gone before and say that we are looking forward to a long and fruitful relationship with you and the excellent staff you have on this subcommittee. You've come to this job at an important juncture.

Senator HECHT. Thank you. I appreciate your comments.

Mr. ZIGAS. I would like to submit my full statement for the record and just summarize portions of it.

Senator HECHT. Thank you.

Mr. ZIGAS. And state first that I think it's important, as we approach the President's budget and the proposals that the administration has submitted for the assisted housing programs of HUD, to recognize that for low-income people in America today, there is a very, very severe crisis in low-income housing. That crisis is manifested in any number of ways.

INTOLERABLE RENT BURDEN

Let me try to provide some statistical basis for the statement. In our analysis of the "Annual Housing Survey" figures from 1983, which are the most recent ones available to us, we find that there are 8.4 million renter households with incomes below $7,000 a year, and that's just about 50 percent of the renter median at the same time.

So if we look at that group as the poorest of the low-income renters in the country, those earning less than half of the median for all renters in the country, we find some interesting statistics. Now 6.7 million of these households or 79 percent of them in 1983, were paying more than 35 percent of their income for rent. And 7.8 million of these households, or 91 percent, were paying more than 25 percent of their income for rent. And as you well know, these are the standard sorts of measures against which we look to see how well housed people are and how much of their income they're having to put to housing.

And I would submit to you that having 79 percent of these households pay more than 35 percent of their income is an intolerable burden for many of them.

No. 2, we have 2 million households with incomes at or below $3,000 a year, inarguably the poorest households in the Nation renting housing today. And we find that an astounding 86 percent of these households in 1983 paid more than 60 percent of their income for rent. Moreover, only 24 percent of these families are currently receiving Federal housing assistance of any kind. The "Annual Housing Survey" indicates fully 76 percent of them are living in unsubsidized, privately owned housing.

This is not a problem that's restricted only to the older cities of the Northeast and the Midwest or even just the older cities. In the Western region of the country, in the Census Bureau's analysis of the "Annual Housing Survey," we find 1.7 million households with incomes at or below $7,000 a year, which is again, with the median renter income in the Western region being $13,900, just about 50 percent of renter median income.

Now, 52 percent of these renter households are paying more income, more of their income in rent than would be conscionable under any sane national policy. We have 59 percent of all the renters paying more than 25 percent of their income in the Western region, 38 percent paying more than 35 percent of their income for rent. We have 17 percent of them paying more than 60 percent. This is of all the renters. And of those with incomes below $7,000, 52 percent pay more than 60 percent of their income for rent.

There are 402,000 renter households in the Western region with incomes below $3,000 a year. Once again, now we're looking at the very lowest strata. So 71 percent of those households in the Western region pay more than 60 percent of their income for rent.

In Nevada alone, our "Low Income Housing Income Service Analysis of 1980 Census" data shows that in 1980, there was a gap of 20,000 units between the number of households, renter households with incomes at or below 50 percent of the States renter median, and the number of units that were then renting on the private market at or below 25 percent of what a person at that level

of income would have been earning, a very, very serious gap between the demand and the supply, just in that one State. And this is duplicated all over the country.

What are the consequences of these incredible rent burdens and these shortages of affordable housing? Briefly, we see them played out in the unprecedented level of homelessness that people in American cities and suburbs are now experiencing. It's played out in overcrowding. You'll hear later in other testimony about the astounding level of overcrowding in some public housing authorities. And this is because people have nowhere else to go. They are imposing on their friends, on their relatives, to give them shelter, because they cannot find it or afford it in the private sector. And you have extremely high rent burdens.

The administration's response to this unprecedented crisis in American housing for low-income people is to repudiate in their budget proposals a 50-year bipartisan commitment to a continuing and active Federal role in supporting low-income housing expenditure.

DISPROPORTIONATE SHARE FOR LOW-INCOME PEOPLE

Not only that, the President's budget provides no equity between spending on low-income housing needs and spending on the housing needs of the rest of the country.

Mr. Geltman explained to you some of the figures. I won't bother to go into great detail with them. The fact of the matter is that in the current fiscal year, the President's budget estimates, by their own figures, to be spending upward of $50 billion this year in cash money out the door in one form of spending or another for housing expenditures, for housing support.

Only $10 billion of that is for low-income people. The balance principally, two-thirds of it, is for home mortgage deductions on income taxes and for State and property tax deductions on home ownership.

The bulk of these subsidies, by our own estimation, using CBO and Treasury figures, three-quarters of these expenditures—which are real spending from the Government's point of view—are going to those in the top quartile of income of all taxpayers in the country.

Now we're not against the home ownership deduction. I didn't come here to denounce it. But I think it's important as we consider budget reductions, and the kind of spending cuts this administration has proposed, to point out that the low-income people are not receiving the bulk of Federal spending on housing today.

And I would add that low-income people and the spending on their housing problems are not a major part of why we have a Federal budget deficit today. And I think you see that after having had 4 years of substantial cuts, reduction from budget levels of $31 billion in new authority, 1981, to $10 billion last year, during a period of time during which the Federal budget deficit has more than tripled.

Low-income people have taken their lumps. They have given to help reduce the Federal budget deficit. They are suffering because

of it. And it has made no appreciable difference in the size of the Federal budget deficit.

What would we like to see the Senate committee do?

First, we think it's imperative that the Senate Budget Committee resolution that currently freezes HUD spending on some low-income housing programs, eliminates funding for the Farmers Home Rural Programs, eliminates the HODAG Program and freezes the Rental Rehab Program has got to be modified on the floor.

Low-income people deserve no less than a complete freeze at their spending levels in fiscal year 1985, across the board. And we believe that this is the most important action that the Senate can do in the next few weeks, to reemphasize that point and to take it fully on the floor of the Senate.

As far as the administration proposals, in the bill that was submitted, I really must demur—I have not had a chance to review it thoroughly. I would like to just mention a couple of things.

One, we oppose very strenuously the proposed elimination of the Housing Development Grant Program. We oppose it because it is one of the few mechanisms Congress has seen fit to make available in the last 5 years to stimulate the production of housing.

As you know, a sizable percentage of that housing is devoted to low-income people. And we believe that program, which has only been funded at a very modest level, is an important program to keep going, particularly because we've only had 1 year's experience with it. And that experience seems to have been quite positive.

Two, we oppose the suspension of the Rental Rehabilitation Grant Program for much the same reason. That program has only just begun. It is one of the few mechanisms by which local governments can attack the housing problems they have of moderate rehabilitation in low-income neighborhoods.

We have some comments we are submitting for the record on improvements we'd like to see in that program, but we certainly do not support its suspension, as proposed in the budget.

I would also say, Mr. Chairman, that we will strongly oppose the proposed elimination of the housing assistance plans [HAP] in community development block grants. I have been working in this field, prior to joining the Low Income Housing Coalition, I worked for the U.S. Conference of Mayors on these issues. We found HAP was an absolutely essential mechanism by which to ensure local governments were forced to review their low-income housing needs, forced to review the adequacy of their own efforts in meeting them, and it was a benchmark against which Federal efforts could be measured.

The administration will argue, I presume, that they don't have the resources any longer to help local governments meet these needs and, therefore, there's no need to assess them.

I might posit that at a time when resources are being shrunk on the basis of an argument—a specious argument, I believe—that the budget deficit must be reduced because of these expenditures, that that is exactly the time you do not remove the documentation of housing need. And it is exactly the time you do not lift from local governments the burden of their having to assess these needs and

develop them in a public manner and stand by them through review with their citizens and the people who elect them.

So I will urge you very strongly to reject that proposal from the administration.

Now we would like to review in greater detail and submit for the record any further comments. My time is over and I've just finished, and I'll be happy to answer any questions you might have.

Senator HECHT. Thank you. Thank you very much. You're well organized.

[The complete prepared statement follows:]

National
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Hon. Edward W. Brooke, *Honorary Chairperson* Barry Zigas, *President*

STATEMENT OF

BARRY ZIGAS, PRESIDENT

NATIONAL LOW INCOME HOUSING COALITION

Mr. Chairman, distinguished members of the Committee, my name is Barry Zigas. I am here today as the President of the National Low Income Housing Coalition. The Coalition is an organization of individuals and groups providing advocacy services for low income housing. We have members in every state of the Union. We represent tenants in assisted housing, owners and developers of privately and publicly owned subsidized housing, and advocates throughout the nation working at the local level to provide desperately needed housing to low income people.

I would like to take this opportunity to congratulate the Chairman on his election to his new position. Its a pleasure to be here today, and I look forward to a long and fruitful relationship with you and your excellent staff on the Subcommittee.

I wish to thank the Chairman and Committee for the opportunity to appear today to share our views on low income housing needs. My testimony today will cover four basic areas:

1. What are the needs for low income housing in America today?

2. What will the Administration's proposed FY 1986 budget for low income housing do to meet these needs?

3. What kind of balance is there within the budget and current spending patterns between meeting the needs of low and very low income households and those of the middle class and wealthy?

4. What congressional actions should be taken to address the low income housing crisis gripping the nation?

LOW INCOME HOUSING NEED

America today faces a crisis in low income housing which is almost without parallel in our modern history. All around us we see the evidence of this crisis: unprecedented homelessness; astronomical rent burdens among Americans with the lowest incomes in the country; overcrowding in our existing housing stock, as people move in with families and friends in conditions more reminiscent of the 1930's than the 1980's; and waiting lists for low income housing which can produce only despair among those seeking assistance for themselves and their children.

Mr. Chairman, at a time when some are rejoicing in an economic recovery, affordable housing for low income people is becoming an endangered species.

According to the Annual Housing Survey, renter median income in 1983 was $12,900 per year. At the same time, there were 8.4 million renter households with incomes at or below $7,000 per year, or a little more than 50 percent of the renter median. Of these 8.4 million households, the 1983 AHS estimates that 6.7 million--or 79 percent--pay more than 35 percent of their income for gross rent. A total of 7.8 million--or 91 percent--pay more than 25 percent of their income for rent.

Needless to say, while a majority of these low income renters are paying more than a quarter of their income for rent, the heaviest burden falls on those least able to bear it. While only 18 percent of all renter households pay more than 60 percent of their income for gross rent, the median income of this 18

percent is only $4,300 per year, or substantially less than 50 percent of the renter median. Moreover, among families with incomes at or below $3,000 per year an astonishing 86 percent pay more than 60 percent of their income for rent. And these 2 million families at the lowest end of the economic spectrum are ill served today by existing housing assistance programs: the AHS estimates that 76 percent of all renter households with incomes below $3,000 per year live in privately owned, unsubsidized rental housing.

The situation among homeowners is scarcely better. The median income among owners of homes with mortgages was $31,000, according to the AHS. However, owners at or below 50 percent of the median represented only 16 percent of all homeowners with mortgages. While only 24 percent of all the mortgaged owners paid more than 30 percent of their income for gross housing costs, 78 percent of the owners with incomes at or below 50 percent of the median for owners of mortgaged homes did so. While only 5.9 percent of all owners with mortgages on their homes paid more than 60 percent of their income for shelter costs, 93 percent of those with incomes below $3,000 did, 62 percent of those with incomes between $3,000 and $7,000 did, and 30 percent of those with incomes between $7,000 and $10,000 did.

The simple fact of the matter is that even after 50 years of federal effort to make good on the promise of a decent home in a suitable living environment for all Americans, millions and millions of citizens are forced to pay exorbitant amounts of their income to provide a roof for themselves and their families. Not only is the situation grim for these low income people, but the evidence is that it has gotten worse for them over the last 10 years.

Using an analysis of the 1980 Census data, the Low Income Housing

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Information Service, the Coalition's sister research and education organization, has produced a "Rental Housing Crisis Index" to provide a rough picture of low income housing availability in the United States. It is a grim picture, indeed.

In 1970, there were 6.6 million renter households at or below 50 percent of the renter median income. There were at the same time 5.4 million housing units renting for a price at or below 30 percent of 50 percent of renter median income. This meant that there were 1.2 million fewer units of affordable housing available for rent than were needed by low income households. By dividing the number of households by the number of units, a "Rental Housing Crisis Index" can be developed. In 1970, this index was 1.23.

By 1980, the number of households with incomes at or below 50 percent of the renter median had increased to 7.1 million. But the number of units renting for 30 percent or less of 50 percent of the renter median had dwindled to 5.1 million, or less than were available 10 years earlier, even though renter median income had increased over that period of time. In 1980, the gap between households needing the housing and the number of units available had increased to 2.04 million, and the Rental Housing Crisis Index had increased 14 percent to 1.4.

If the same calculations are done using a 25 percent rent-to-income figure to determine the number of units available, the Rental Housing Crisis Index is even more shocking--1.9 in 1980, up 18 percent from 1970.

The list of horrors could go on and on. Even President Reagan's 1981 Commission on Housing concluded that there were over 7 million very low income renter households either paying more than 30 percent of their income for rent and/or living in substandard housing.

Yet since then, federal housing assistance has been cut by over 60 percent, and the nation has been at a virtual standstill as far as adding new subsidized units to the stock goes.

Mr. Chairman, at this point in my testimony, I would like to submit for the record a copy of the Rental Housing Crisis Index developed by the Low Income Housing Information Service, as well as several newspaper articles which document in gripping detail the human consequences of these shocking shortages of affordable low income housing.

Mr. Chairman, the evidence of these shortages is all too apparent today. Homeless families, many earning incomes but too poor to afford private housing, pour into shelters in every major city in the country. Even suburbs find themselves inundated by homeless families unable to find housing they can afford in communities where they work.

America's cities are beginning to take for granted scenes that look like something out of a Charles Dickens novel: homeless men and women huddled around garbage fires. Families dragging their only possessions to and from today's version of the poorhouse: homeless shelters run by churches and private charities. We have not yet seen the full consequences of this calamity. The implications for schools, the impact on our children's lives, and the demands being made for services for which no provisions are made are only just being felt. In other words, homelessness is not simply a housing problem, although it could be solved by a better and more adequate low income housing assistance effort. Homelessness is a family problem, creating a web of social dislocations and dependencies which will be hard to unravel in future years.

Throughout the country, charities are crying out for assistance: they

cannot cope with the flood of homeless people. Foreclosures on homeowners are breaking old records. Waiting lists for existing assisted housing stretch beyond imagining. Even HUD officials are numbed by the facts: in a recent article in Builder magazine, the director of research for HUD's Assistant Secretary for Public and Indian Housing is quoted as estimating that it would take 90 years at the present rate of program expansion to meet the current need for low income housing assistance.

REAGAN'S FY 1986 BUDGET

Yet what is the response of the current Administration to these facts? In brief, the FY86 housing budget proposal is a disaster for the millions of Americans so desperately in need of low income housing assistance.

As you know, the FY86 budget would provide no additional assistance whatsoever under any of the assisted housing programs. This moratorium is not for a month, or six months, or even a year. It is a complete cap on any additional assistance for two full years. And this moratorium comes after three years of unprecedented assaults on the low income housing budget.

The Reagan housing budget is a complete repudiation not only of a 50 year bipartisan commitment to the goal of decent housing for all Americans. It is a complete repudiation of four years of rhetoric from the Reagan Administration. This budget provides no vouchers, which the Administration has touted as the answer to America's housing needs. This budget provides no funds for the Rental Rehabilitation Grant program, which the Administration promoted ceaselessly for four long years until Congress adopted it. It provides practically no funding at all for Comprehensive Public Housing Modernization, although the

Administration has argued for four years that its top priority was the refurbishing of the nation's existing low income housing stock.

Mr. Chairman, I would like at this point in my testimony to include a copy of a budget analysis prepared by the Low Income Housing Information Service, which goes into greater detail on the FY86 budget proposals.

Along with the new funding moratorium, the FY86 budget also proposes several program changes which would further erode what little assistance is available to help low income people. The freeze on all Fair Market Rents in Section 8 and voucher housing could have a direct and dangerous effect on tenants in those two programs. Arbitrarily limiting rent increases permitted in these programs runs directly counter to the Administration's basic argument for them: that they run with the private market, not against it. Simply ordering rents not to rise is rather like a famous king who ordered the sun to follow his bidding. It certainly is about as useful.

The 10 percent reduction in fees collected by PHAs administering the voucher and Section 8 programs is a self-defeating proposal. It runs directly counter to the advice of President Reagan's own Housing Commission, which emphasized that a voucher program--which it endorsed--could not be successful without substantial support for administration, counseling and outreach services which these fees support.

The Administration's budget also calls for the complete elimination of the housing programs of the Farmer's Home Administration in the Department of Agriculture. This would be a disaster for low income households in rural areas, where housing needs are particularly acute. Moreover, the budget proposal to eventually fold the rural and urban housing programs together with a 100,000 unit level in FY88 would mean an effective cut from FY85 levels in both urban and rural programs of over 70,000 units.

The budget resolution approved by the Senate Budget Committee last week endorses the elimination of the Farmers Home housing programs, and freezes HUD's assisted housing budget at FY85 levels. However, the resolution assumes that HUD's assistance will be allocated on a 50/50 basis between urban and rural areas beginning in FY86. This means an effective cut of almost 50 percent from FY85 funding levels, levels which already were cut by more than 60 percent from FY81 appropriations. This budget resolution must be amended to restore the Farmers Home cuts. HUD's programs are manifestly unsuited to rural areas. They contain no program comparable to the homeownership efforts of FmHA. Moreover, HUD's field structure is not geared to provide assistance in rural areas. This problem will only be exacerbated if the Department's proposal to close three of its western regional offices--Denver, Seattle, and Kansas City--is adopted. I urge you and all members of the Subcommittee to strongly oppose the budget resolution in its present form, and support amendments and alternatives which will restore funding for the Farmers Home housing programs at FY85 levels, and maintain the freeze at FY85 levels for HUD's assisted housing programs.

In other areas, the budget sets about to complete the damage started in the housing portion. The projected 10 percent cut in overall Community Development Block Grant (CDBG) funding would be dangerous enough. But when coupled with the proposed shift of allocation between entitlement and nonentitlement areas, the proposal is deadly. Over the last four years, local and state governments have struggled to cover the gaps in the "safety net" left by budget cuts sought by the Administration and approved by Congress. The President himself has often pointed to CDBG and urged local governments to use this flexible funding to make up other losses. To turn now and cut this program further is the worst kind of "shift and shaft" budget gimmickry we've seen in a long time. There is no question that locally based programs for the development and preservation of low income housing will suffer because of these projected cuts.

EQUITY IN THE HOUSING BUDGET

President Reagan has argued that his FY86 budget proposals are equitable. He and his spokesmen have said that middle class subsidies are hurt by this budget, not low income needs.

Mr. Chairman, there is no equity in the President's proposals for assisted housing.

In FY86, the HUD budget proposes outlays for low income housing assistance totaling $10.5 billion. In contrast, outlays through lost revenues accounted for by tax subsidies of all types to homeowners will total $41.3 billion in FY86. Investor deductions will push this total to $45.6 billion. Of the total, mortgage interest and property tax deductions will account for $38 billion. The Low Income Housing Information Service estimates that 75 percent of these deductions flow directly to homeowners who are among the richest 20 percent of all taxpayers.

What these figures amount to is a housing welfare system for the rich. While revenue losses from these tax deductions for homeowners have ballooned since FY81 by 30 percent from $29 billion to $38 billion, the FY86 HUD budget would slash new budget authority 98 percent from FY81 levels.

Mr. Chairman, if you earn $10,000 a year or less in America, you can expect to receive an average of $10 per month in federal housing assistance. But if you earn $50,000 per year or more, you can expect an average of $150 per month in federal housing assistance.

What little redress President Reagan seems willing to endorse in the tax system would also be the most damaging to the meager resources left to help produce and preserve low income housing. The Treasury Department's proposals for "tax reform" focus on investor deductions, which together account for a little over 10 percent of the revenue losses generated by homeowner deductions. These investor deductions, though inefficient compared to direct subsidies, are also targetted to low income housing in many ways, making them infinitely more helpful to low income people than homeowner deductions are now. Yet the President has declared the homeowner deductions off limits in any tax reform discussion.

This is not equity. This is a scorched earth policy towards low income people.

CONGRESSIONAL ACTION

The most important action for the Congress to take at this moment is to repudiate the Administration's FY86 budget request in clear and uncertain terms. Mr. Chairman, your Committee has defended the continuing role of the federal government in providing housing assistance to low income Americans. It is time once again for the Committee to act decisively to kill the Reagan budget request now. The actions taken by the Senate Budget Committee last week jeopardize this commitment as never before. I urge you to act together as Senators and members of this subcommittee to fight the Budget Committee's proposals to eliminate funding for the Farmers Home housing programs. Low income housing programs have taken deep cuts already in the name of deficit reduction. Yet during the same period funding for housing has been reduced by over 60 percent, the federal budget deficit has ballooned by more than 200 percent. Spending on low income

housing is not the reason. Approving the Reagan cuts or the Senate Budget Committee's resolution will not reduce deficits. It will only impose greater hardship on a truly needy population which has nowhere else to turn for help.

The National Low Income Housing Coalition last year undertook a long and painstaking policy development process involving hundreds of grass-roots activists in an attempt to formulate our ideal for federal housing legislation. I would like to submit for the record a copy of this policy statement, and list just a few of its highlights.

First, the National Low Income Housing Coalition believes that Congress should enact a comprehensive, universal existing housing subsidy program, for renters and owners alike, to ensure that no household who needs assistance is forced to live in substandard housing or shelter which costs in excess of 30 percent of income. Affordability is clearly the most pressing and overwhelming housing need facing low income people today, and Congress should act to solve this problem immediately and comprehensively.

Second, we support the development of a Community Based Housing Supply Program. This effort would provide funds directly to local and state governments for use as grants to nonprofit, community based development organizations for acquisition, rehabilitation, and development of low income housing.

Third, we believe that the preservation of the existing stock of low income housing must be a paramount concern to the Congress and the Administration. This includes aging projects financed under the Section 221(d)(3) and Section 236 programs, as well as conventional public housing. Steps must be taken to ensure that this housing is preserved as a resource for low income people.

Mr. Chairman, I have submitted the entire policy for your review, and won't summarize any more of it here.

Another area which we believe deserves immediate attention in the Senate is public housing disposition. HUD is currently embarked on a demonstration effort to sell public housing units to tenants. The National Low Income Housing Coalition has long supported funding for programs to provide homeownership opportunities for low income people, and it has also supported efforts to provide a greater degree of tenant control over public housing management. But the Administration's demonstration program is fraught with danger. The Coalition opposes it strongly for several reasons:

- It is not accompanied by a program of replacement of units lost through sales to tenants. At a time of unprecedented shortages of affordable low income rental housing and record-long waiting lists, we cannot afford to lose any portion of the existing low income stock.

- It does not provide any long-term subsidies to the owners of the housing. This is a dangerous way to set up low income people with shelter costs they cannot reasonably bear.

- There are no requirements that local demonstrations include provisions to guarantee that the units sold will remain available on resale to other qualified low income purchasers. Again, our low income housing crisis is too acute to permit scarce units to be traded out of the low income inventory into the private market without any restrictions.

Mr. Chairman, we urge the Committee to examine the authorization for this

demonstration and amend it as necessary to ensure that any homeownerhsip program includes the protections we have mentioned above.

A final area on which I would like to touch is the need for Congress to address in this session the problems facing older, privately owned and federally subsidized housing units. Projects originally financed through the Section 236 and 221(d)(3) programs are aging. In addition, many are reaching the point where the tax consequences of sale by the original owners are negligible. Thus, low income tenants face the possibility of eviction from their units after sale to a new owner, or conversion of the property to some other use. In addition, other units badly need to be modernized. At present, however, there is no adequate low cost financing option for the owners to use to accomplish this.

Legislation has been introduced on the House side by Rep. Barney Frank to provide federal assistance to owners of these projects in return for agreements to maintain the units for occupancy by low income tenants. We support this legislation, and urge the Committee to hold hearings on this measure and support it as well.

Mr. Chairman, I would like to reserve the right to submit further comments on the Administration's legislative proposals, inasmuch as we have not seen it yet. Meanwhile, I would like to thank you and the Committee again for the opportunity to share our views today, and I will be happy to answer any questions you may have.

WASHINGTON POST
FEB. 18, 1985

For Doris Rizkallah and her three daughters, Suzanne, left, Jeannie and Donna, home is a shelter in Rockville.

'The New Homeless'

Growing Number of Families Crowd Suburban Shelters

By Ruth Marcus
Washington Post Staff Writer

Doris Rizkallah's coworkers in the mailroom of a Gaithersburg company have no idea that she is homeless.

"It's not the kind of thing you tell people," said Rizkallah, 28, a baby-faced woman dressed neatly in a gray plaid skirt and black pumps. "I listen to other people talk about their new homes, and they just bought a car, and you see them wear different clothes every day. Sometimes it gets pretty hard."

Since early January, "home" for Rizkallah and her three daughters has been the Stepping Stones shelter in Rockville, a sprawling, renovated farmhouse tucked in a development of $95,000 brick town houses.

Rizkallah is one of the hidden homeless, the growing number of individuals and—increasingly—families who find themselves without a place to live in the Washington suburbs.

Some of those who are homeless in the suburbs fit the stereotype of the more visible, and more numerous, homeless downtown—the deinstitutionalized, released from mental insititutions with nowhere to go, and the chronically homeless, often suffering from alcoholism or drug addiction.

But a greater number are what Jill Lienhardt of Bethesda's Greentree Shelter calls "the new homeless," who never expected to find themselves in such desperate straits.

Often working at service jobs for the minimum

See HOMELESS, A20, Col. 1

HOMELESS, From A1

wage of $3.35 an hour, or living on public assistance checks, they may be hit by a run of bad luck, or their housing situation may simply collapse under the strain of skyrocketing suburban rents.

With waiting lists stretching to as long as seven years, low-income housing offers little prospect of relief. As a result, the homeless often resort to lies, inflating their income to prospective landlords in order to rent an apartment or hiding part of it in order to keep their welfare checks from being reduced.

The Rizkallahs' problems began when Joe Rizkallah lost his job working with his brother as a painter, and he was unable to get unemployment benefits on the grounds that he was self-employed. Doris Rizkallah's job at the time, earning minimum wages by typing and filing for a local engineering firm, did not bring in enough to pay the $545 monthly rent.

Evicted From Town House

She came home from work one October afternoon to find an eviction notice tacked to the front door of their three-bedroom town house in Gaithersburg.

"I heard about people sleeping in the streets downtown," said Rizkallah, who has since separated from her husband. "It wasn't a reality until it happened to me."

"I have to keep reminding people that there are homeless people in the suburbs," said Robert Crittenden of Catholic Charities, which operates five suburban shelters in Maryland and Virginia. "They say, 'Where are the bag ladies, where are the people we see sleeping on the grates downtown? No grates, no people.' But they are there."

Fairfax County officials, for example, estimate that there are 390 people homeless there on any given night, and that is a conservative figure, according to Donna M. Foster, assistant director for adult and family services. In Montgomery County, between 800 and 1,000 people are homeless, according to social service officials, and in Prince George's County, between 1,000 and 1,200.

"Many of the people that end up in the shelters have jobs and are different from the people who sleep on grates downtown," said Lynda Eubank, assistant division chief for the Arlington County Department of Social Services. "There are more and more people who would have been able to make it and are now bumping into the edge of survival. They were barely making ends meet before and now they find they can't do it."

Problem Is Nationwide

The story is the same in suburbs across the country that, once thought to be affluent enclaves immune from such urban problems, report increasing numbers of people with no place to live, despite the economic recovery.

"It's less visible . . . . It's not going to hit you in the face the way it would walking the streets of New York City," said Dan Salerno of the National Coalition for the Homeless, a New York-based organization. But, he said, "The suburbs are noticing it, and to me that's an indication that it's getting worse."

A growing number of the suburban homeless are families, both intact and single-parent. "We are seeing a new need—families, often single moms," said Gary Cyphers, Alexandria's assistant city manager for human services.

In Prince George's County, for example, a survey by shelter providers found that 77 percent of their requests for housing aid came from families with children, with an average of two children per household. Nearly two-thirds of the cases involved single parents; in half, the primary source of income was public assistance or unemployment benefits.

Added Jana Graves, director of the Mondloch House shelter in Fairfax County, "They'll be at the shelter, and he'll be at a night job and she'll be at a day job and they'll have two kids and they just won't be able to make ends meet . . . . People who used to be able to live in this area on public assistance can no longer afford to. They're going backwards like 100 miles an hour."

County officials and shelter providers throughout the Washington area warn that the problem is getting worse:

- Crowding forced the Arlington Community Temporary Shelter to reject 298 people in the last half of 1984—five times as many turned away in the previous six months, and seven times as many as in the same period of 1983.

In an effort to serve more people, the shelter, starting Jan 1, also cut the maximum stay from three weeks to two. "How could you and I find a job, get a place to live, deal with everything in two weeks?" asked shelter director Sheila J. Wolfe. "It's not a good solution, but I can't think of any other."

- At Shelter House in Falls Church, the average length of stay has climbed steadily, from nine days in 1982, to 16 days in 1983, to 23 in 1984. "It will probably be close to 30 this year," said shelter director Jane Deppler. The shelter turned away 68 people last September, she said, three times the number in September 1983.
- Prince George's County sheltered 450 families and individuals in local motels and churches in the fiscal year ending in June 1984, compared to 320 in 1983 and 301 in 1982. County officials expect to shelter more than 480 individuals and families this fiscal year.
- Warning that costs for their homeless program could be double initial projections of $20,000, Alexandria officials were forced last December to seek additional funding for the city's emergency shelter program.

"We had one family going out today and we had two waiting to go in," said Gus C.E. Hall, director of Alexandria's Christ House shelter. "Then we had a vacancy for one man and we had several apply."

- Montgomery County paid for housing in local shelters and motels for 167 families and individuals in 1982, 223 in 1983 and 270 last year. Those figures do not include the growing numbers who received free shelter from church groups and other organizations in the county.
- In Fairfax County, costs for sheltering the homeless have risen from $168,000 for 801 people in the fiscal year ending in June 1983 to $301,000 for 1,133 people last fiscal year. Costs this year are expected to exceed $500,000, said Foster.

"We've been running at 100 percent occupancy for six months," said Graves of the county's Mondloch House shelter. "We have 32 beds, but I often go over that. It's hard to turn people away."

Typically, homelessness is not a sudden occurrence but a gradual descent. Evicted or on the verge of being evicted, an individual or family may move in with friends or relatives. But often, either landlords discover the doubling-up and order the family to leave, or crowded conditions breed tension and arguments, and the family finds itself without a place to stay.

That leads them to shelters or to cheap motels that counties use as an alternative to shelters, either because they find motels more "dignified," as Prince George's County, or because existing shelters are filled to capacity.

Shelter Stays Are Limited

Since many shelters limit stays to a fixed period, the homeless often find themselves on a round of "musical shelters," simply moving to a different shelter without being closer to resolving their housing problem.

And once they have patched together a solution—finding another family to share quarters with, stretching a tight budget for an apartment above their means—they may find themselves homeless once again.

"They get it together and manage for a few months and then get behind again," said Eubank of Arlington. "It used to be in cycle of a year or two years," she said. "Now it's a matter of months."

The essential problem is that the rise in housing costs—fueled by a shrinking market of available apartments and heavy demand as the metropolitan area population grows—has far outstripped the increase in income of many suburban residents.

Prince George's County is the average rent for a one-bedroom apartment below $400 monthly a mother with two children on public assistance, in contrast, receives a maximum payment of $363 from the Aid to Families with Dependent Children program.

"No matter what kind of documentation you use, you keep coming up with the same conclusion: that, especially in the suburbs, there is a terrible shortage of affordable housing," said Barry Zigas of the National Low-Income Housing Coalition.

High Rents Cited

"Just to move into . . . a decent, clean apartment in the Rte. 1 area will take $800 to $1,000 in up-front money to pay the security deposit, pay the first month's rent, get the utilities turned on," said the Rev. Vin Harwell of Mount Vernon Presbyterian Church, one of nine Fairfax churches in the Rte. 1 area that take turns sheltering homeless men and women. "Where are they going to come up with that kind of money—and if they do, what are they going to live on to put food on the table? When you're washing dishes part time at Denny's you can't afford $350 or $400 a month."

Moreover, most apartment complexes require that potential tenants earn at least 75 percent of the monthly rent in a week—a standard that few of those who find themselves homeless can meet.

While some of the suburban homeless move to the District, which has a more plentiful supply of cheap housing, many are fearful of leaving the suburbs, which they consider safer and as having better schools. Others want to live in suburbia because that is where their jobs are.

Consequently, waiting lists for low-income housing in the suburbs stretch into the thousands, except in Alexandria, which stopped taking applications three years ago and still has 600 people on its waiting list.

The scarcity of subsidized housing is expected to worsen. During its first term, the Reagan administration virtually halted new construction of subsidized housing—the full impact of which has not yet been felt, according to Zigas. Now, it is proposing a two-year freeze in the number of families receiving housing assistance.

"You can have all the temporary resources in the world," said Helayne Baker of Stepping Stones, which gets its funding from local churches, synagogues and individuals. "If you don't have those permanent resources—like affordable housing—it doesn't make a blessed bit of difference."

"We're in for a siege of homelessness," warned ...phers, Alexandria's assistant city manager.

After the eviction and the Rizkallahs' decision ... separate, Doris Rizkallah took the children—...uzanne, 7, Donna, 9, and Deanna, 10—to live ... a month in a friend's basement. She was ...ked to leave. "You know how kids can get rowdy and everything, and they just said, 'That's ...

In the meantime, she obtained a permanent ...sition, making $230 weekly in her company's ...ailroom. But hunting for an apartment affordable on that salary proved fruitless, and the family turned to Stepping Stones.

"I just found a lot of dead ends," said Rizkallah, who grew up in Montgomery County and graduated from Eastern High School in Kensington. They'd say, 'You'll need a three-bedroom,' and there are really none in my range."

Now into her second month at the shelter, Rizkallah is still looking for housing, and gettin... nowhere. The children, embarrassed at th... truth, tell classmates that they are living wit... their grandmother.

"I saw a two-bedroom for $510 a month," she said. "If I bring home $800 and pay out $500 an... the rest of it goes for baby-sitting and car payments, and I need a car to get to work and get the kids to school . . . . I thought about getting part-time job on weekends, but it just didn... make sense because of baby-sitting costs."

Meanwhile, Rizkallah said, she is still facing bill for back rent of more than $3,000, plus a $212 electric bill. When she tries to repay thos... debts, she said, "My paycheck is gone before get it." She toyed with the idea of filing for bankruptcy, she said, until a lawyer told her that it would cost $400.

"I don't know how I'm ever going to get an apartment because we have bad credit," she said.

"I don't know if anyone will even consider renting to me."

The best solution, she said, would be to share a house with another family. "But you rarely see an ad in the paper for a ready-made family to share with somebody else," she said.

Rizkallah's house-hunting problems are far from unique. Greentree Shelter in Bethesda has found that only 40 percent of its residents are able to obtain permanent housing upon leaving the shelter, "and we considered that a fantastic statistic," shelter director Lienhardt said.

Still others are unable even to enter Greentree in the first place.

"I've talked to people on the phone and we've been full, and I don't know what else to tell them," Lienhardt said.

What happens to such people?

"I really couldn't tell you what they do," Lienhardt said. "Generally they don't have 20 cents to call us back and let us know."

ECONOMICS OF HOMELESSNESS

	AVERAGE RENT 2 BEDROOMS	MAXIMUM AID PARENT 2 CHILDREN*	LOW INCOME HOUSING UNITS	ESTIMATED LENGTH OF WAIT
Prince George's	$440	$313	3,825	2 to 7 years
Montgomery	510	363	5,775	2 years
Alexandria	558	327	1,451	7 years**
Arlington	542	363	2,036	2 to 3 years
Fairfax	487	363	7,551	2½ years

'I Never Thought It Would Happen to Me'

Jim and Mary Nulanz, with their two children, live in a Fairfax shelter but hope to move to an apartment at the end of the month

When they lived in the Groveton Garden Apartments off Rte. 1 in Fairfax County, Jim and Mary Nulanz never paid much attention to the shelter next door.

"I thought it was for homeless children or something," Mary Nulanz said of Mondloch House, which she could see from the window of her two-bedroom, $385-a-month apartment

Then Jim Nulanz went out one morning to play football with friends, broke his leg, and, consequently, lost his job driving a van for a printing company. Mary, who had already missed a number of days of work because the couple's car was broken, came down with the flu and was fired from her position as a mailroom supervisor at a local company

They were evicted from Groveton in March 1984 and embarked on a year of makeshift living arrangements—sleeping on friends' floors, staying at cheap motels along the Rte 1 corridor and living at Mondloch House for a week in May.

They ended up there again in January, when they were given a day to leave a friend's apartment after the landlord discovered four adults and five children crowded into its two bedrooms

"I heard on the news about the homeless downtown," Jim Nulanz said "I never thought it would happen to me"

Jim Nulanz has been working about [illegible] hours a week making minimum wages in the kitchen at a Chuck E. Cheese pizza restaurant. Mary Nulanz is working part time as a cook and cashier at the Holly Farms Fried Chicken Restaurant in Beacon Mall Together, their take-home pay is about $240 weekly

"We're still looking, but every time the rent's too high or they don't want children or things like that," Mary Nulanz said recently, putting away laundry in the family's small bedroom in the county-funded shelter. The two adults and 17-month-old Autumn Marie share two cots, 2-month-old Linda Courtney sleeps in a crib

Shelter director Jana Graves agreed to let the family stay beyond the 30-day limit Last Monday, they teamed up with another woman at Mondloch to share a two-bedroom-and-den apartment beginning next month

"We're going to slide in undercover," explained Jim Nulanz. "They won't rent it to two families but on the lease it says relatives can come and stay with you for a while So my wife will pretend that she's the sister, and I'm going to be the long-lost cousin from Utah That's the only way we can do it."

On Friday, Jim Nulanz was hired as a supply room clerk at Blue Cross-Blue Shield He starts work this week at the position, which pays $1[illegible] 142 annually

"It feels like something good's finally starting to happen," Jim Nulanz said

—Ruth Marcus

Until the mugging, Diane Dickerson was making it, despite numbers suggesting it was impossible. The numbers are these: monthly rent on the two-bedroom Takoma Park apartment of $460, and $436 a month in public assistance for Dickerson, 34, her 9-year-old son, her 16-year-old daughter, and her daughter's 11-month-old baby.

But with some cash on the side from her son's grandmother, Dickerson was managing to pay the rent. Then, in November, when she had just cashed the monthly check and spent a few dollars of it on diapers for the baby, a mugger grabbed Dickerson's purse outside her apartment.

"There's no way I could make that [November rent money] up," she said. So the next month, she bought Christmas presents for the family instead of paying the rent. "I just decided we should have a happy Christmas," she said.

The next month, the eviction notice came, giving her one day to get out, she said. Paul, 9, went to stay with his grandmother in the District. Penny, 16, moved in with a friend. And Dickerson and her granddaughter, Sherita, have been on the move, staying first at a friend's room in a boarding house, then at two cheap Silver Spring motels for three nights, and, last week, at Greentree Shelter in Bethesda.

"I've never gone this far down," Dickerson said. "In the last few years, we've had to move five or six times. Either they would go up on the rent or the electric would get too high. But I would always find a place before they kicked us out."

She is sharing a room in the stone building, which formerly housed an orphanage, with seven other women and children.

Subsidized housing does not appear to be an option. "I've been on the Section 8 [waiting list for subsidized housing] for three or four years," she said.

And Dickerson does not want to move to the District. "I don't want my kids going to D.C. schools," she said. "I wouldn't feel good about my son being outside playing. I know there are better sections, but if you go there you end up paying just as much" as in the suburbs.

Meanwhile, Dickerson's son has been out of school since the eviction. "I talked to him today, he says he misses us, and if I have Sherita, why can't he come stay with us," said Dickerson.

But having Paul at the shelter would require her to spend much of each day taking him on buses to and from his Silver Spring elementary school, and "I need to focus all my attention on trying to get a place," Dickerson said last Friday. "I'm just really feeling kind of bad right now. We're a family all torn apart, and it's just a mess."

— **Ruth Marcus**

Michelle Frazier sat on a battered couch in the living room of Bethesda's Greentree Shelter and talked about the fear she has lived with since last autumn that, someday as dusk falls, she and her 5-year-old daughter will have no place to sleep.

"Sometimes it's like a dream—I'm going to wake up tomorrow and it will all be over," said Frazier, a former nursing home assistant.

Frazier, 27, had to give up her $400-a-month Silver Spring basement apartment when her husband, an insulation installer, was sentenced to prison on drug charges, and she could not pay the rent on her $143-a-week salary.

In October, after leaving her apartment, Frazier and her daughter, Marsha, moved into a friend's town house in Gaithersburg. By the next month, the landlord had discovered the doubling up and ordered them to leave.

"I was freaking out, thinking, 'Oh my God, what am I going to do,' " she said.

Going home to Florida was not an option, she said, because she has been estranged from her father and her stepmother since she, a white woman, married a black man.

Frazier called the county crisis line and got the names of various shelters. She tried Stepping Stones in Rockville, but she was told that she would not be able to continue her night job because of the shelter's midnight curfew. Greentree had space and no such limitations. There was no one available to look after Marsha when she was at work, so Frazier gave up her job and applied for public assistance.

Meanwhile, her 1974 Chevy Nova broke down, and she had no money to fix it, limiting her ability to get to the housecleaning jobs she had advertised for in the local paper. And, not wanting to take her daughter out of kindergarten in Gaithersburg, Frazier found herself spending much of each day ferrying Marsha to school, a process that involved three buses and took two hours each way.

"Sometimes I have to keep her out of school just so I can get other things done," she said.

After six weeks at Greentree, she was told to leave. Frazier located an aunt who agreed to take in her and Marsha for a few weeks, squeezing the family into the two-bedroom apartment that the aunt shares with her two sons. Frazier is still there, job-hunting when she can find a baby sitter and waiting for a refund check from the Internal Revenue Service that she hopes will give her money for a down payment on an apartment.

"I'm kind of in a rut, but I feel like things will work out," she said. "They say, 'All things come to those who wait,' and I've been waiting an awful long time."

— **Ruth Marcus**

National Low Income Housing Coalition

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Hon Edward W Brooke *Honorary Chairperson* Barry Zigas *President*

THE RENTAL HOUSING CRISIS INDEX

The following tables provide a graphic explanation of the low income housing crisis. For each state--and for certain metropolitan areas--the tables show the following information:

- o THE NUMBER OF RENTER HOUSEHOLDS EARNING 50% OR LESS OF MEDIAN RENTER INCOME FOR THE STATE OR METRO AREA.
- o AN AFFORDABLE MONTHLY RENT AT 25 PERCENT OF THIS INCOME LEVEL.
- o THE NUMBER OF RENTAL UNITS BY STATE OR METRO AREA WHICH CAN BE RENTED AT THIS AFFORDABLE RENT.
- o THE GAP BETWEEN THE RENTER HOUSEHOLDS WITH INCOMES BELOW 50 PERCENT OF THE RENTER MEDIAN INCOME, AND THE NUMBER OF UNITS RENTING AT THIS AFFORDABLE RATE.
- o THE "RENTAL HOUSING CRISIS INDEX", DEVELOPED BY DIVIDING THE NUMBER OF RENTER HOUSEHOLDS EARNING 50 PERCENT OR LESS OF THE MEDIAN RENTER INCOME FOR EITHER THE STATE OR METROPOLITAN AREA BY THE NUMBER OF AFFORDABLE UNITS IN THE STATE OR METRO AREA. ANY INDEX FIGURE GREATER THAN 1.00 INDICATES MORE HOUSHOLDS IN NEED OF AFFORDABLE HOUSING THAN THERE ARE RENTAL UNITS AVAILBLE IN THE STATE OR METRO AREA.

This analysis is a conservative estimate of the unmet affordable rental housing need, since it includes all units renting at the stated level whether or not they are standard, and assumes that all are available to low income renter households, which is seldom the case. We believe that any index number greater than 0.500 means a housing crisis for very low income renters.

(This information was developed by the Low Income Housing Information Service, and is derived from the 1980 Census.)

THE 1980 LOW INCOME RENTAL HOUSING CRISIS:
ESTIMATED NUMBER OF RENTER HOUSEHOLDS WITH INCOMES BELOW 50% OF RENTER MEDIAN
COMPARED WITH AFFORDABLE UNITS AT 25% OF INCOME, BY STATE AND SELECTED SMSA

State or SMSA	Renter households with incomes below 50% of renter median	Maximum afford-able rent at 25%	Esti-mated afford-able Units	GAP	RENTAL CRISIS INDEX*
Alabama	100,155	92	77,560	-22,595	1.291
Alaska	13,701	182	9,905	-3,796	1.383
Arizona	75,802	118	41,212	-34,590	1.839
Arkansas	60,149	90	46,264	-13,885	1.300
California	951,121	128	308,902	-642,218	3.079
Colorado	94,096	121	41,681	-52,414	2.258
Connecticut	98,605	131	49,966	-48,639	1.973
Delaware	16,001	117	7,804	-8,197	2.050
Dist of Columbia	40,829	129	18,308	-22,521	2.230
Florida	296,768	109	134,581	-162,187	2.205
Georgia	163,805	103	115,502	-48,303	1.418
Hawaii	35,534	144	29,044	-6,490	1.223
Idaho	22,680	108	12,661	-10,018	1.791
Illinois	377,653	129	193,235	-184,418	1.954
Indiana	136,282	119	82,148	-54,134	1.659
Iowa	74,128	119	43,950	-30,178	1.687
Kansas	64,952	117	43,445	-21,506	1.495
Kentucky	94,622	97	73,598	-21,023	1.286
Louisiana	121,655	104	87,427	-34,228	1.392
Maine	28,701	97	18,177	-10,524	1.579
Maryland	138,800	141	70,237	-68,563	1.976
Massachusetts	215,728	119	118,748	-96,979	1.817
Michigan	218,310	122	97,144	-121,166	2.247
Minnesota	102,371	115	52,186	-50,185	1.962
Mississippi	59,864	85	46,472	-13,392	1.288
Missouri	136,150	108	80,377	-55,773	1.694
Montana	22,291	106	16,385	-5,905	1.360
Nebraska	45,119	116	29,981	-15,138	1.505
Nevada	30,768	134	10,509	-20,259	2.928
New Hampshire	26,163	120	14,003	-12,160	1.868
New Jersey	242,119	132	104,744	-137,374	2.312
New Mexico	35,225	104	24,805	-10,420	1.420
New York	814,315	121	322,903	-491,412	2.522
North Carolina	161,466	104	108,885	-52,582	1.483
North Dakota	17,787	109	13,233	-4,555	1.344
Ohio	302,702	115	165,527	-137,175	1.829
Oklahoma	81,989	106	52,799	-29,190	1.553
Oregon	86,410	118	37,236	-49,174	2.321
Pennsylvania	317,236	113	190,289	-126,947	1.667
Rhode Island	34,879	104	20,537	-14,342	1.698
South Carolina	76,856	103	58,659	-18,196	1.310
South Dakota	18,630	94	14,821	-3,809	1.257
Tennessee	127,106	99	97,690	-29,416	1.301
Texas	439,920	122	272,439	-167,480	1.615
Utah	32,549	119	14,998	-17,851	2.170

State or SMSA	Renter households with incomes below 50% of renter median	Maximum afford-able rent at 25%	Esti-mated afford-able Units	GAP	RENTAL CRISIS INDEX*
Vermont	13,941	102	6,832	-7,109	2.041
Virginia	160,371	126	85,453	-74,918	1.877
Washington	132,297	121	65,304	-66,993	2.026
West Virginia	45,348	101	36,778	-8,569	1.233
Wisconsin	131,224	122	65,314	-65,909	2.009
Wyoming	12,743	145	10,586	-2,157	1.204
TOTAL	7,147,916	118	3,741,244	-3,406,672	1.911
Akron, OH	17,486	117	9,825	-7,661	1.780
Albany-Schenectady-Troy, NY	26,389	114	13,710	-12,679	1.925
Allentown-Bethlehem-Easton, PA	16,554	123	10,542	-6,012	1.570
Anaheim-Santa Ana-Garden Grove, C	67,785	164	11,438	-56,347	5.926
Asheville, NC	4,829	100	3,804	-1,025	1.269
Atlanta, GA	69,436	122	38,811	-30,625	1.789
Baltimore, MD	75,673	127	37,844	-37,829	2.000
Birmingham, AL	24,621	105	16,254	-8,367	1.515
Boston, MA	115,880	128	59,409	-56,471	1.951
Bridgeport, CT	11,535	122	5,767	-5,768	2.000
Charlotte-Gastonia, NC	20,370	121	11,062	-9,308	1.841
Chicago, IL	265,094	136	114,711	-150,383	2.311
Cincinnati, OH	46,488	114	28,695	-17,793	1.620
Cleveland, OH	61,568	121	34,304	-27,264	1.795
Columbus, OH	39,478	116	16,473	-23,005	2.397
Dallas-Fort Worth, TX	101,532	133	46,475	-55,057	2.185
Dayton, OH	24,504	116	11,860	-12,644	2.066
Denver-Boulder, C	56,419	128	21,570	-34,849	2.616
Detroit, MI	108,450	128	50,229	-58,221	2.159
El Paso, TX	14,281	95	12,336	-1,945	1.158
Ft. Lauderdale-Hollywood, FL	29,447	127	8,473	-20,974	3.475
Gary-Hammond-East Chicago, I	16,485	146	12,621	-3,864	1.306
Grand Rapids, MI	13,205	126	5,939	-7,266	2.223
Greensboro-Winston-Salem-High Point, NC	23,840	111	13,008	-10,832	1.833
Honolulu, HI	28,855	145	20,693	-8,162	1.394
Houston, TX	105,896	153	40,616	-65,280	2.607
Indianapolis, IN	36,357	127	19,056	-17,301	1.908
Jacksonville, FL	22,820	108	12,278	-10,542	1.859
Jersey City, NJ	36,526	121	14,552	-21,974	2.510

State or SMSA	Renter households with incomes below 50% of renter median	Maximum afford-able rent at 25%	Esti-mated afford-able Units	GAP	RENTAL CRISIS INDEX*
Kansas City, MO	41,401	125	24,576	-16,825	1.685
Laredo, TX	2,458	79	1,944	-514	1.264
Los Angeles-Long Beach, CA	351,761	127	98,703	-253,058	3.564
Louisville, KY	25,838	107	16,423	-9,415	1.573
Memphis, TN	30,952	98	18,904	-12,048	1.637
Miami, FL	69,327	107	22,037	-47,290	3.146
Milwaukee, WI	49,978	136	22,195	-27,783	2.252
Minneapolis-St. Paul, MN	62,545	125	27,391	-35,154	2.283
Nashville-Davidson, TN	26,365	115	17,268	-9,097	1.527
Nassau-Suffolk, NY	41,677	149	16,862	-24,815	2.472
New Orleans, LA	48,343	109	25,132	-23,211	1.924
New York, NY-NJ	603,690	125	223,261	-380,429	2.704
Newark, NJ	74,074	133	32,831	-41,243	2.256
Norfolk-Virginia Beach-Portsmouth, VA	27,718	111	9,906	-17,812	2.798
Northeast Pennsylvania	18,462	103	13,116	-5,346	1.408
Oklahoma City, OK	25,485	115	12,192	-13,293	2.090
Omaha, NB	17,894	120	9,659	-8,235	1.853
Orlando, FL	21,751	115	8,019	-13,732	2.712
Philadelphia, PA	131,795	116	60,929	-70,866	2.163
Phoenix, AZ	42,671	122	17,636	-25,035	2.420
Pittsburgh, PA	64,322	115	37,488	-26,834	1.716
Portland, OR-WA	44,405	126	16,786	-27,619	2.645
Providence-Warwick-Pawtucket, RI	33,549	104	19,335	-14,214	1.735
Richmond, VA	20,637	123	8,233	-12,404	2.507
Riverside-San Bernardino-Ontario, CA	43,589	115	15,681	-27,908	2.780
Rochester, NY	28,936	122	11,143	-17,793	2.597
Sacramento, CA	37,439	111	12,918	-24,521	2.898
St. Louis, MO	66,538	117	32,662	-33,876	2.037
Salt Lake City-Ogden, UT	22,299	120	8,136	-14,163	2.741
San Antonio, TX	31,451	105	21,257	-10,194	1.480
San Diego, CA	75,210	121	16,447	-58,763	4.573
San Francisco-Oakland, CA	150,312	140	57,075	-93,237	2.634
San Jose, CA	46,224	166	12,207	-34,017	3.787
Seattle-Everett, WA	55,787	136	26,451	-29,336	2.109
Syracuse, NY	19,669	114	8,890	-10,779	2.212

State or SMSA	Renter households with incomes below 50% of renter median	Maximum affordable rent at 25%	Estimated affordable Units	GAP	RENTAL CRISIS INDEX*
Tampa-St. Petersburg, FL	45,157	104	19,567	-25,590	2.308
Toledo, OH	20,656	118	10,274	-10,382	2.011
Tulsa, OK	19,904	117	10,981	-8,923	1.813
Washington, DC	127,016	163	51,794	-75,222	2.452
West Palm Beach-Boca Raton, FL	15,647	125	7,678	-7,969	2.038

* The RENTAL CRISIS INDEX is the number of renter households with incomes below 50% of renter median, divided by the estimated number of units in the housing stock (regardless of quality, size, or availability) renting below the maximum they can afford at 25% of income. If the index is greater than 1.000, it would be impossible, even if all the lowest income renters lived in all the cheapest units, for all renters to obtain affordable housing. Because many of the least expensive units are in fact occupied by households with higher incomes, or are substandard, or are unavailable, any Index number higher than 0.500 means a crisis for very low income renters.

Source: Estimated by Low Income Housing Information Service from 1980 Census Data

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FOR IMMEDIATE RELEASE

PRESS PACKET
ON PRESIDENT REAGAN'S FY86
BUDGET PROPOSALS FOR LOW INCOME HOUSING ASSISTANCE

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SUMMARY ANALYSIS OF
HUD'S FY86 LOW INCOME HOUSING BUDGET PROPOSALS
(Prepared by the Low Income Housing Information Service)

The FY86 budget for assisted housing proposes a two-year moratorium on any additional assistance for lower income housing. This cut, from an FY85 appropriation of $10.8 billion in new budget authority to a proposed FY86 level of $499 million, would cap the total number of households assisted through the HUD programs at an estimated FY85 level of no more than 4.1 million. The FY85 budget, by contrast, should provide assistance to over 90,000 households who are not currently receiving federal housing subsidies.

Highlights of the FY85 budget proposals in housing include:

- No incremental housing assistance units of any kind in either FY86 or FY87. This includes the housing voucher program, Section 8 Existing Housing Certificates, the Section 202 program for elderly and handicapped, public and Indian housing programs, Rental Rehabilitation Grants and Housing Development Grants.

- Repeal of the Housing Development Grant program authorized in the Housing and Urban Rural Recovery Act of 1983 to provide assistance for new construction and rehabilitation of rental housing units through direct grants to local and state governments.

- A 10 percent cut in the fees allowed public housing agencies (PHAs) for administering both Section 8 and housing voucher programs.

- A one-year freeze on Fair Market Rents (FMRs) in both the Section 8 Existing Housing program and the voucher program. This means that even if local costs and rents rise in an area, the rent ceiling for Section 8 and vouchers would remain frozen at the FY85 level.

Rescissions and Deferrals

The budget proposes a rescission of $253 million in public housing operating subsidy funds from FY85. The budget states that congressional appropriations exceeded actual needs of the Performance Funding System (PFS) through which PHAs receive their operating assistance by this amount. The budget also seeks the repeal of $529 million in authority in the Section 236 program. These funds are being replaced by Section 8 subsidies to the affected tenants. No reductions in actual units is caused by this rescission. However, the period during which tenants would be assured of assistance is shortened by many years through the use of these conversions. HUD has sought and received similar rescissions in recent years.

FY85 Funding Levels

The budget projects that actual unit reservations in FY85 will fall short of congressional appropriations estimates by about 21,300 units. The bulk of this shortfall is accounted for by fewer conversions from Section 236 Rent Supplement projects to Section 8 than projected by the Administration last year. Also, the budget projects that only 11,617 units of Section 202 housing for the elderly and handicapped will be approved in FY85, or nearly 400 less than the 12,000 projected by Congress in the appropriation. The main reason for this is higher than expected contract amendment needs to meet higher costs in already approved units.

FY86 Funding Levels

Under the Administration's proposals, no new additional assisted housing units would be made available in either FY86 or FY87. An appropriation of $499 million is requested for 3,500 housing vouchers. These will be used to cover conversions from the Section 8 new construction or substantial rehabilitation program approved in prior years, as well as displacement caused by loss of subsidized stock. In addition, the budget includes funding for 5,000 vouchers for use in connection with HUD's property disposition program; 5,000 for loan management activities, and 1,000 for conversions from the Section 23 Leased Housing Assistance Program.

President Reagan is also proposing the elimination of the housing programs of the Farmers Home Administration (FmHA) of the Department of Agriculture, which provides assisted housing in rural areas of the country. The HUD budget includes a recommendation that starting in FY88, when the Department's housing programs would once again be funded, 50 percent of HUD's commitments be allocated to rural areas. This is intended to compensate for the loss of FmHA resources. Approval of this proposal would cut future low income housing assistance to less than half of the FY85 FmHA-HUD total.

Under the budget proposals, Fair Market Rents under Section 8 Existing Housing and vouchers would be frozen at the FY85 levels. In addition, PHAs administering the programs would have to absorb a 10 percent cut in the fees they receive for administrative costs in running the programs. This will preclude the kind of support and assistance which President Reagan's 1981 Housing Commission regarded as essential to the success of the voucher program.

Section 202 Housing for the Elderly and Handicapped

The budget proposes a two-year moratorium on any new commitments for new construction or substantial rehabilitation through the Section 202 program for the elderly and handicapped. Ironically, President Reagan highlighted the Administration's support for this program in a campaign visit to a project opening in Buffalo, NY last fall.

Public Housing

All new commitments for conventional low-rent public housing and Indian housing would be eliminated for FY86. In addition, funding for public housing operating subsidies would be reduced from the current level of about $1.2 billion to $1 billion. Savings would be achieved through freezing all administrative cost functions for PHAs at their FY85 levels; implementing a new "rolling base" for utility consumption under an agreement with the public housing agencies; and instituting a new policy restricting operating subsidy payments for vacant units.

Public Housing Modernization funding would be eliminated almost entirely, with only $175 million in one-year capital funding available to meet emergency needs. In FY87, the budget anticipates requesting $761 million in one-year capital funding, which the Administration estimates would be equivalent to the $1.5 billion in long-term capital financing provided by Congress in FY85. (In the past, modernization has been financed through amendments to existing Annual Contributions Contracts with PHAs. These amendments obligated HUD to pay the interest and principal on local tax exempt bonds to finance the repair work. The budget proposes shifting this financing to one year direct capital grants. However, in FY86 this is accompanied by a virtual elimination of funding for the program.)

Rental Rehabilitation Grants

Although the Administration fought for three years to get Congress to adopt the Rental Rehabilitation Program in 1983, it seeks no funding under the program for the next two fiscal years. In FY85, local and state governments will receive $150 million to subsidize the rehabilitation of 30,000 units.

Housing Development Grants (HODAG)

The Housing Development Grant (HODAG) program was authorized in 1983, and $315 million was appropriated for use in FY84-85. The program provides direct, discretionary grants to local and state governments to leverage private investment in rental housing. At least 20 percent of the units must be occupied by low income tenants at rents not exceeding 30 percent of 50 percent of the area median income.

The FY86 budget seeks the repeal of the HODAG program.

Emergency Assistance for the Homeless

The HUD budget contains no funding request for aid for the homeless. In addition, the budget request for the Federal Emergency Management Agency (FEMA) seeks no additional funding for its program of emergency food and shelter assistance. The FEMA program received $70 million in FY85 appropriations.

TABLE 1. HIGHLIGHTS OF HUD LOW INCOME HOUSING PROGRAMS, 1986 COMPARED TO EARLIER YEARS
(Dollars in millions)

Program/Activity	1981 Actual	1982 Actual	1983 Actual	1984 Actual	1985 Estimate	1986 Proposed	Change 1985-86 Amount	Change 1985-86 Percent	Change 1981-86 Number	Change 1981-86 Percent
Budget Authority										
Net new budget authority	$30,170	$17,374	$8,651	$9,913	$10,759	$499	($10,260)	-95.4%	($29,671)	-98.3%
Permanent authority	32	30	25	19	0	0	0	--	($32)	-100.0%
Carryover balances	2,291	2,772	1,590	1,465	765	893	128	16.7%	($1,398)	-61.0%
Recaptures	5,227	2,831	3,273	2,458	1,292	859	(433)	-33.5%	($4,368)	-83.6%
Prior year deferrals/res	0	0	750	233	210	0	(210)	-100.0%	$0	--
Subtotal, available BA	$37,720	$23,007	$14,290	$14,088	$13,027	$2,251	($10,776)	-82.7%	($35,469)	-94.0%
Less: Rescissions/deferr	(5,519)	(4,099)	0	0	(1,292)	(859)	433	-33.5%	$4,660	-84.4%
Total budget authority	$32,201	$18,909	$14,290	$14,088	$11,735	$1,392	($10,343)	-88.1%	($30,809)	-95.7%
Use of Budget Authority										
Section 8										
New const/sub rehab (2	$10,245	$3,704	$1,955	$1,901	$1,501	$0	(1,501)	-100.0%	($10,245)	-100.0%
Moderate rehab	551	1,024	540	528	419	0	(419)	-100.0%	($551)	-100.0%
Existing	5,791	1,280	2,013	3,806	2,621	0	(2,621)	-100.0%	($5,791)	-100.0%
Vouchers	242	1,572	1,330	261	774	66	(709)	-91.5%	($176)	-72.9%
Loan management	185	293	90	88	81	84	3	3.8%	($101)	-54.4%
Property disposition	552	536	735	313	464	350	(114)	-24.5%	($202)	-36.6%
Conversions to existin	314	2,338	2,443	2,023	839	45	(794)	-94.7%	($269)	-85.8%
Amendments	3,007	4,020	1,069	331	606	571	(35)	-5.8%	($2,436)	-81.0%
Subtotal	$19,357	$12,630	$9,332	$9,252	$7,305	$1,115	(6,189)	-84.7%	($18,242)	-94.2%
Public housing										
Conventional	$4,196	$1,232	$0	$895	$945	$0	(945)	-100.0%	($4,196)	-100.0%
Indian	472	494	341	368	313	0	(313)	-100.0%	($472)	-100.0%
Amendments	935	372	545	218	200	82	(118)	-58.8%	($853)	-91.2%
Lease/other adjustment	30	25	89	381	354	19	(335)	-94.6%	($11)	-36.0%
Modernization	1,699	1,800	2,566	1,613	1,725	175	(1,550)	-89.9%	($1,524)	-89.7%
Subtotal, public hou	$7,332	$3,923	$3,541	$3,475	$3,537	$277	(3,260)	-92.2%	($7,055)	-96.2%
Rental development grant	0	0	0	0	315	0	(315)	-100.0%	$0	--
Rental rehabilitation gr	0	0	0	150	150	0	(150)	-100.0%	$0	--
Total obligations	$26,689	$16,554	$12,873	$12,877	$11,307	$1,392	(9,915)	-87.7%	($25,297)	-94.8%
Contract Authority										
Net new contract auth	$1,417	$897	$520	$636	$848	$356	(491)	-57.9%	($1,061)	-74.8%
Total contract authority	1,155	1,046	772	870	895	457	(437)	-48.9%	($698)	-60.4%
236 rental housing	0	0	0	(5)	(4)	(2)	2	-53.5%	($2)	--
Rent supplements	(143)	(1,060)	(311)	(44)	(73)	0	73	-100.0%	$143	-100.0%
									$0	
Total units under subsidy	3,546,700	3,507,896	3,663,328	3,859,676	3,978,000	4,164,000	186,000	4.7%	$617,300	17.4%
Housing payment outlays	$5,747	$6,726	$7,786	$10,697	$10,785	$10,973	188	1.7%	$5,226	90.9%
Public housing operating s	$1,071	$1,493	$1,351	$1,558	$1,241	$1,011	(230)	-18.6%	($60)	-5.6%
Public housing modernization										
New budget authority	$1,699	$1,800	$2,566	$1,613	$1,725	$175	(1,550)	-89.9%	($1,524)	-89.7%
Capital costs financed	$927	$858	$1,260	$792	$847	$175	(672)	-79.3%	($752)	-81.1%
202 elderly/handicapped lo	$873	$819	$634	$666	$600	$50	(550)	-91.7%	($823)	-94.3%
235 home ownership BA used	$1,650	$628	$1,018	$614	$195	$0	(195)	-100.0%	($1,650)	-100.0%
Units reserved	5,102	4,754	2,630	2,503	5,400	0	(5,400)	-100.0%	($5,102)	-100.0%

Source: Low Income Housing Information Service (compiled from HUD Budget Summaries)

TABLE 2. SUBSIDIZED HOUSING UNIT RESERVATIONS, 1976-1986

HUD PROGRAMS:	Actual 1976+TQ (Net)	Actual 1977 (net)	Actual 1978 (Net)	Actual 1979 (Net)	Actual 1980 (Gross)	Actual 1981 (gross)	Actual 1982 (gross)	Actual 1983 (gross)	Actual 1984 (gross)	1985 Estimate (gross)	Proposed 1986 (gross)
Section 8											
New construction	157,116	145,272	99,342	111,692	75,033	58,108	24,114	15,116	14,488	11,617	0
Substantial rehab	18,971	24,124	22,703	33,346	17,730	15,753	3,413	456	0	0	0
Moderate rehabilitation	0	0	0	34,294	26,167	19,916	6,799	14,917	7,074	5,000	0
Existing	206,046	140,480	98,300	90,375	36,336	83,041	23,418	36,163	53,835	37,500	0
Vouchers	--	--	--	--	--	--	--	--	14,104	37,349	0
Subtotal, incremental	382,133	309,876	220,345	269,707	155,266	176,818	57,744	66,652	89,501	91,466	0
Loan management, conversions, etc	111,448	21,101	37,172	0	13,899	7,213	76,216	77,496	54,774	30,500	14,500
Subtotal, Section 8	493,581	330,977	257,517	269,707	169,165	184,031	133,960	144,148	144,275	121,966	14,500
Public Housing											
Conventional	19,252	49,371	63,621	49,649	31,834	33,242	8,944	312	5,212	5,000	0
Indian	6,888	8,065	4,888	5,719	4,893	3,128	3,192	2,500	2,762	2,000	0
Subtotal, public hsg	26,140	57,436	68,509	55,368	36,727	36,370	12,136	2,812	7,974	7,000	0
Total, Section 8 + pub hs	519,721	388,413	326,026	325,075	205,892	220,401	146,096	146,960	152,249	128,966	14,500
Section 235	18,574	4,719	11,378	14,471	58,907	5,102	4,754	2,630	930	5,400	0
Section 236	11,515	0	283	-85	121	-208	-688	-881	-1739	-13672	0
Rent supplement	-4443	0	0	0	0	-897	-38082	-76436	-21313	-28244	0
Section 202	(29,875)	(24,791)	(19,973)	(22,525)	(18,720)	(14,828)	(16,038)	(14,112)	(14,277)	(11,617)	0
Rental development grants	--	--	--	--	--	--	--	--	--	16,000	0
Rental rehab grants	--	--	--	--	--	--	--	--	--	(30,000)	0
SUBTOTAL, ADDITIONAL UNITS	433,919	372,031	300,515	339,461	251,021	217,185	35,864	(5,223)	75,353	77,950	0
HUD TOTAL, ALL UNITS	545,367	393,132	337,687	339,461	264,920	224,398	112,080	72,273	130,127	108,450	14,500
FARMERS HOME ADMINISTRATION											
502 home ownership loans											
New, purchase	54,325	39,337	35,663	38,645	39,374	39,097	35,901	32,697	27,674	33,300	0
Existing, purchase	21,447	20,796	26,089	24,368	21,558	20,910	20,223	17,763	15,023	17,700	0
Existing, repair or reh	618	841	1,013	1,251	1,807	1,527	726	754	762	1,390	0
Subtotal, 502	76,390	60,974	62,765	64,264	62,739	61,544	56,850	51,214	43,459	52,390	0
515 rental or coop loans	27,244	30,175	30,446	36,520	30,980	28,740	30,500	24,200	27,100	25,500	0
514/516 farm labor housin	866	1,208	512	2,575	1,490	890	748	326	402	810	0
504 very low income repai	3,115	3,028	4,393	5,213	6,934	5,296	2,771	1,993	2,057	4,700	0
Subtotal, FmHA loans	107,615	95,385	98,116	108,572	102,143	96,470	90,869	77,733	73,018	83,400	0
504 repair grants	0	0	3,183	6,842	8,589	7,687	4,205	3,845	3,642	3,486	0
FMHA TOTAL	107,615	97,627	101,299	115,414	110,372	104,157	95,074	81,578	76,660	86,886	0
TOTAL ADDITIONAL UNITS	541,534	469,658	401,814	454,875	361,393	321,342	130,938	76,355	152,013	164,836	0
GRAND TOTAL	652,982	490,759	438,986	454,875	375,292	328,555	207,154	153,851	206,787	195,336	14,500

Source: Low Income Housing Information Service
(compiled from HUD/FmHA budget documents

TABLE 3. HUD SUBSIDIZED HOUSING STARTS AND COMPLETIONS, 1980-86

STARTS

HUD PROGRAMS:	1980 Actual	1981 Actual	1982 Actual	1983 Actual	1984 Actual	1985 Estimate	1986 Estimate
Section 8							
New construction	101,054	49,916	71,344	32,122	14,973	17,000	14,500
Substantial rehabilitation	31,667	10,512	16,487	10,451	2,673	1,000	1,000
Subtotal, Section 8	132,721	60,428	87,831	42,573	17,646	18,000	15,500
Public Housing							
Conventional	36,365	41,660	22,906	23,812	20,313	7,134	3,000
Indian	4,163	3,947	2,194	3,248	2,130	3,300	2,800
Subtotal, public housing	40,528	45,607	25,100	27,060	22,443	10,434	5,800
Total, Section 8 + public hous	173,249	106,035	112,931	69,633	40,089	28,434	21,300
Section 235	9,577	38,313	6,096	11,587	1,573	4,900	2,000
Section 202	(20,850)	(16,895)	(17,253)	(14,112)	(10,709)	(14,000)	(13,000)
HUD TOTAL	183,011	144,348	144,348	119,027	41,662	33,334	23,300

COMPLETIONS

HUD PROGRAMS:	1980 Actual	1981 Actual	1982 Actual	1983 Actual	1984 Actual	1985 Estimate	1986 Estimate
Section 8							
New construction	119,366	119,398	77,382	68,096	51,616	31,500	31,500
Substantial rehabilitation	16,027	22,132	21,437	17,778	14,137	2,000	2,000
Moderate rehabilitation	72	4,896	11,366	120,693	16,530	22,000	2,500
Existing (including conversi	107,288	62,324	96,408	108,955	77,625	75,500	96,000
						17,500	41,000
Subtotal, Section 8	242,753	208,750	206,593	203,892	159,908	148,500	173,000
Public Housing							
Conventional	9,835	29,576	25,051	24,814	20,999	22,000	23,074
Indian	5,274	4,055	3,478	3,062	3,093	2,130	3,300
Subtotal, public housing	15,109	33,631	28,529	27,876	24,092	24,130	26,374
Total, Section 8 + public hous	257,862	242,381	235,122	231,768	184,000	172,630	199,374
Section 235	24,136	38,313	6,096	11,587	1,573	4,900	2,000
Section 202	(16,418)	(27,968)	(24,072)	(20,681)	(14,276)	(15,000)	(16,000)
HUD TOTAL	284,301	280,694	241,218	243,355	185,573	177,530	201,374

Source: Low Income Housing Information Service (compiled from HUD Budget Summaries)

TABLE 4. HIGHLIGHTS OF OTHER HUD PROGRAMS, 1986 COMPARED TO EARLIER YEARS
(Dollars in millions)

Program/Activity	1981 Actual	1984 Actual	1985 Estimate	1986 Proposed	Change, 1985-86 Amount	Change, 1985-86 Percent	Change, 1981-86 Amount	Change, 1981-86 Percent
Congregate services BA	$0	$0	$4	$0	($4)	-100.0%	$0	--
Housing counseling	$7.0	$3.5	$3.5	$0.0	($4)	-100.0%	($7)	-100.0%
Fair Housing/Equal Opportunity								
Fair Housing Initiatives Program	$0	$0	$0	$10	$10	--	$10	--
State/local agency aid	$2	$4	$6	$4	($2)	-34.4%	$2	100.0%
Agencies assisted	32	92	100	110	10	10.0%	78	243.8%
Community Housing Resources Bds (	$0	$2	$2	$1	($1)	-54.5%	$1	--
Number assisted	0	76	80	50	(30)	-37.5%	50	--
Title VIII complaints received	4,209	4,533	4,700	4,980	280	6.0%	771	18.3%
processed	3,931	4,642	4,715	5,025	310	6.6%	1,094	27.8%
Compliance reviews completed	549	249	250	250	0	0.0%	(299)	-54.5%
Homesteading outlays	$7	$16	$17	$15	($2)	-12.1%	$8	107.1%
Single family units conveyed	1,165	1,519	554	827	273	49.3%	(338)	-29.0%
Multifamily properties	15	0	15	0	(15)	-100.0%	(15)	-100.0%
312 rehab loans	$85	$86	$130	$0	($130)	-100.0%	($85)	-100.0%
Number of loans	3,346	3,475	6,453	0	(6,453)	-100.0%	(3,346)	-100.0%
COMMUNITY DEVELOPMENT								
Community Devel Block Grants	$3,695	$3,468	$3,472	$3,125	($347)	-10.0%	($570)	-15.4%
Urban Devel Action Grants	$675	$440	$440	$0	($440)	-100.0%	($675)	-100.0%
Rental rehab grants	NA	$150	$150	$0	($150)	-100.0%	--	--
Units rehabilitated	NA	29,000	31,000	0	(31,000)	-100.0%	--	--
MORTGAGE INSURANCE/FINANCING								
Federal Housing Administration								
Insurance limitation	$34,155	$50,900	$50,900	$50,900	$0	0.0%	$16,745	49.0%
Applications (units)	550,296	525,127	601,500	634,500	33,000	5.5%	84,204	15.3%
Units insured	408,129	441,747	470,500	495,200	24,700	5.2%	87,071	21.3%
Claims paid (units)	46,695	65,075	65,504	59,521	(5,983)	-9.1%	12,826	27.5%
Claims paid	$789	$1,764	$1,881	$1,782	($99)	-5.3%	$993	125.9%
TMAP (Temp mortgage asstc)	0	0	$43	$89	$46	108.4%	$89	--
HUD-Owned units, end of year								
Single family	19,339	20,081	16,972	15,512	(1,460)	-8.6%	(3,827)	-19.8%
Multifamily	32,133	13,577	10,510	11,970	1,460	13.9%	(20,163)	-62.7%
Total units	51,472	33,658	27,482	27,482	0	0.0%	(23,990)	-46.6%
HUD-assigned mortgages, year end								
Single family units	19,696	32,441	36,050	36,446	396	1.1%	16,750	85.0%
Multifamily units	218,928	166,303	158,023	145,623	(12,400)	-7.8%	(73,305)	-33.5%
Total units	238,624	198,744	194,073	182,069	(12,004)	-6.2%	(56,555)	-23.7%
Government National Mortgage Assn								
Special asstc (new commitments)								
Section 8 tandem	$1,500	$0	$0	$0	$0	--	($1,500)	-100.0%
Targeted tandem	$300	$0	$0	$0	$0	--	($300)	-100.0%
Mortgage-backed securities								
Limit on commitments	$64,000	$68,250	$68,250	$68,250	$0	0.0%	$4,250	6.6%
Commitments issued in year	$42,150	$39,665	$53,460	$51,110	($2,350)	-4.4%	$8,960	21.3%
Guarantees issued in year	$16,853	$32,090	$38,190	$36,500	($1,690)	-4.4%	$19,647	116.6%
Research and technology	$40	$19	$17	$19	$2	11.8%	($21)	-52.8%
Salaries and Expenses, total	$593	$570	$585	$549	($36)	-6.1%	($44)	-7.4%
Transfers from FHA/other funds	$264	$269	$297	$236	($61)	-20.4%	($28)	-10.6%
Appropriation to HUD	$329	$301	$288	$313	$25	8.7%	($16)	-4.7%
Staffing (permanent/fulltime)	15,122	11,828	11,602	10,867	($735)	-6.3%	($4,255)	-28.1%

Source: Low Income Housing Information Service (compiled from HUD Budget Summaries)

TABLE 5. FARMER'S HOME BUDGET DATA (Dollars in millions)

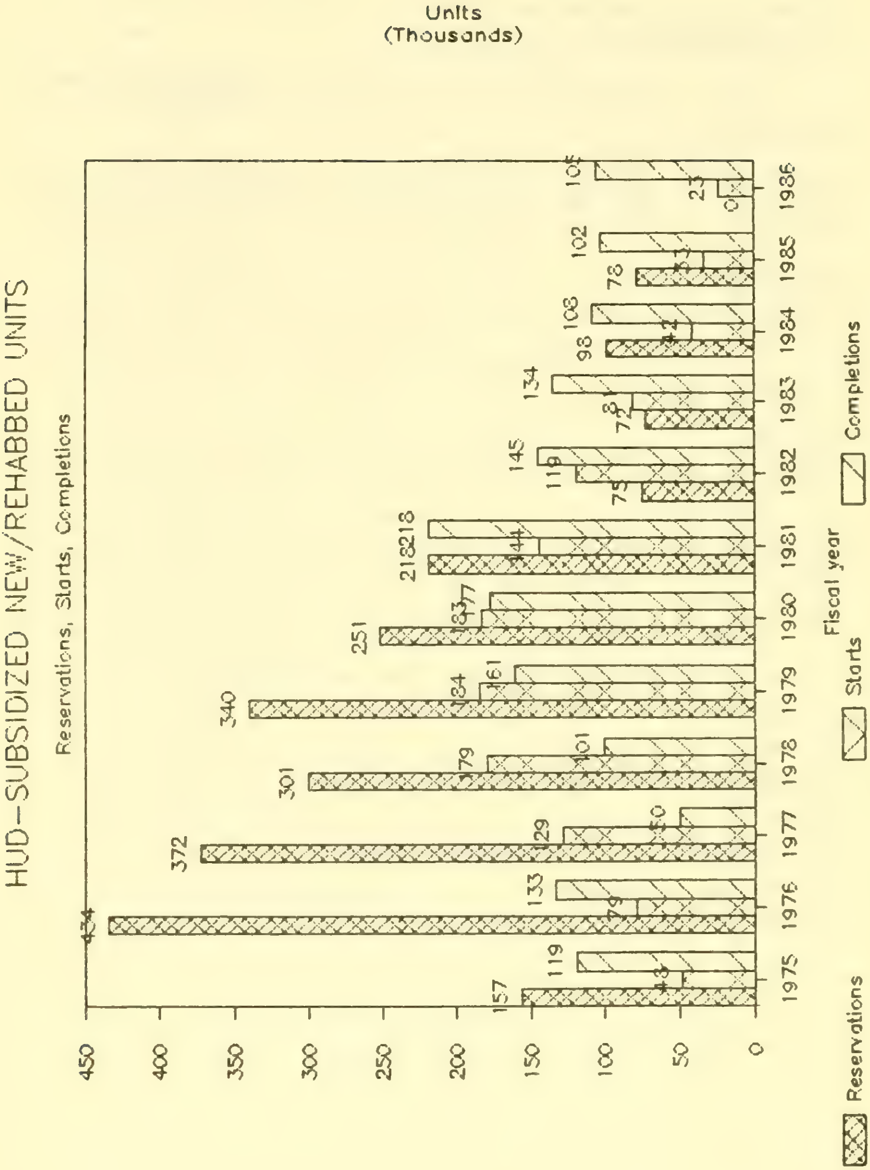
Program	1980 Actual	1984 Actual	1985 Estimate	1986 Proposed	1985-86 Change Dollars	1985-86 Change Percent	1980-86 Change Dollars	1980-86 Change Percent
SUBSIDIZED LOANS								
502 Home ownership,new	$1,392	$1,137	$1,420	0	(1,420)	-100.0%	(1,392)	-100.0%
Existing	783	675	824	0	(824)	-100.0%	(783)	-100.0%
Repair/rehab	45	24	46	0	(46)	-100.0%	(45)	-100.0%
Subtotal	$2,220	$1,836	$2,290	$0	(2,290)	-100.0%	(2,220)	-100.0%
504 repair loans	22	7	17	0	(17)	-100.0%	(22)	-100.0%
515 rental housing loans	825	919	900	0	(900)	-100.0%	(825)	-100.0%
514 farm labor hsg loans	25	5	20	0	(20)	-100.0%	(25)	-100.0%
Subtotal, subsidized	$3,092	$2,768	$3,227	$0	(3,227)	-100.0%	(3,092)	-100.0%
UNSUBSIDIZED LOANS								
502 low income	$31	0	0	0	0	--	(31)	-100.0%
502 moderate income	574	1	0	0	0	--	(574)	-100.0%
502 REA weatherization	1	0	0	0	0	--	(1)	-100.0%
502 Above-mod guaranteed	19	0	0	0	0	--	(19)	-100.0%
Rural housing site loans	1	(0)	1	0	(1)	-100.0%	(1)	-100.0%
Total unsubsidized	625	0	1	0	(1)	-100.0%	(625)	-100.0%
TOTAL LOANS	$3,773	$2,768	$3,228	$0	(3,228)	-100.0%	(3,773)	-100.0%
Low/moderate income loan servicing	$230	$8	$10	$30	20	200.0%	(200)	-87.0%
TOTAL, RURAL HSG INS FUND	$3,773	$2,776	$3,238	$30	(3,208)	-99.1%	(3,743)	-99.2%
REIMBURSEMENT TO RURAL HOUSING INSURANCE FUND	$2,280	$1,508	$1,844	$2,137	293	15.9%	(143)	-6.3%
GRANTS AND PAYMENTS								
Rural rental assistance	$393	$111	$168	$50	(118)	-70.3%	(343)	-87.3%
504 home repairs	24	13	13	0	(13)	-100.0%	(24)	-100.0%
Farm labor housing	25	4	0	0	0	--	(25)	-100.0%
Mutual and self-help hsg	5	6	8	0	(8)	-100.0%	(5)	-100.0%
Self-help land devel	0	0	0	0	0	--	0	--
Supervisory assistance	2	0	0	0	0	--	(2)	-100.0%
Water & waste disposal	290	90	115	25	(90)	-78.3%	(265)	-91.4%
Rural development	10	0	0	0	0	--	(10)	-100.0%
Construction defect comp	2	2	1	0	(1)	-100.0%	(2)	-100.0%
Rural community fire prot	4	3	3	0	(3)	-100.0%	(4)	-100.0%
Rural housing preservation	0	15	5	0	(5)	-100.0%	0	--
Subtotal	$752	$244	$313	$75	(233)	-75.6%	(677)	-90.0%
Salaries and expenses	236	330	335	228	(107)	-32.0%	(8)	-3.4%
Total	$988	$560	$643	$303	(340)	-52.9%	(685)	-69.3%
RURAL DEVELOPMENT LOANS								
Water & Waste Disposal	$700	$270	$340	$50	(290)	-85.3%	(650)	-92.9%
Community facilities	240	130	115	0	(115)	-100.0%	(240)	-100.0%
Industrial development	1,074	124	150	0	(150)	-100.0%	(1,074)	-100.0%
Alcohol production	64	0	0	0	0	--	(64)	-100.0%
Total	$2,014	$524	$605	$50	(555)	-91.7%	(1,964)	-97.5%
REIMBURSEMENT TO RURAL DEVEL. INSURANCE FUND	$92	$478	$560	$612	52	9.3%	520	565.3%

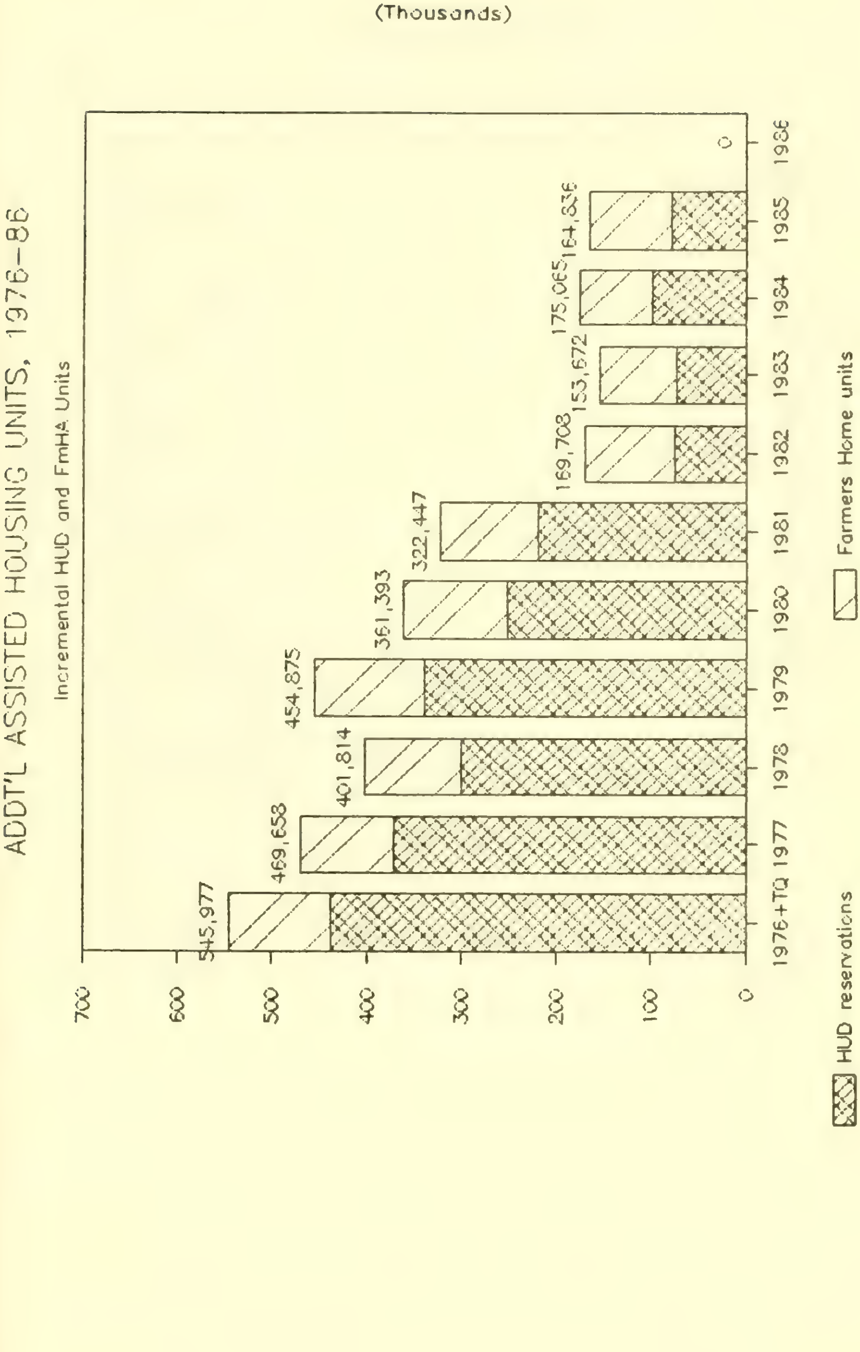
Source: Low Income Housing Information Service (based on data in Appendix: Budget of U.S. Govt, 1982-86)

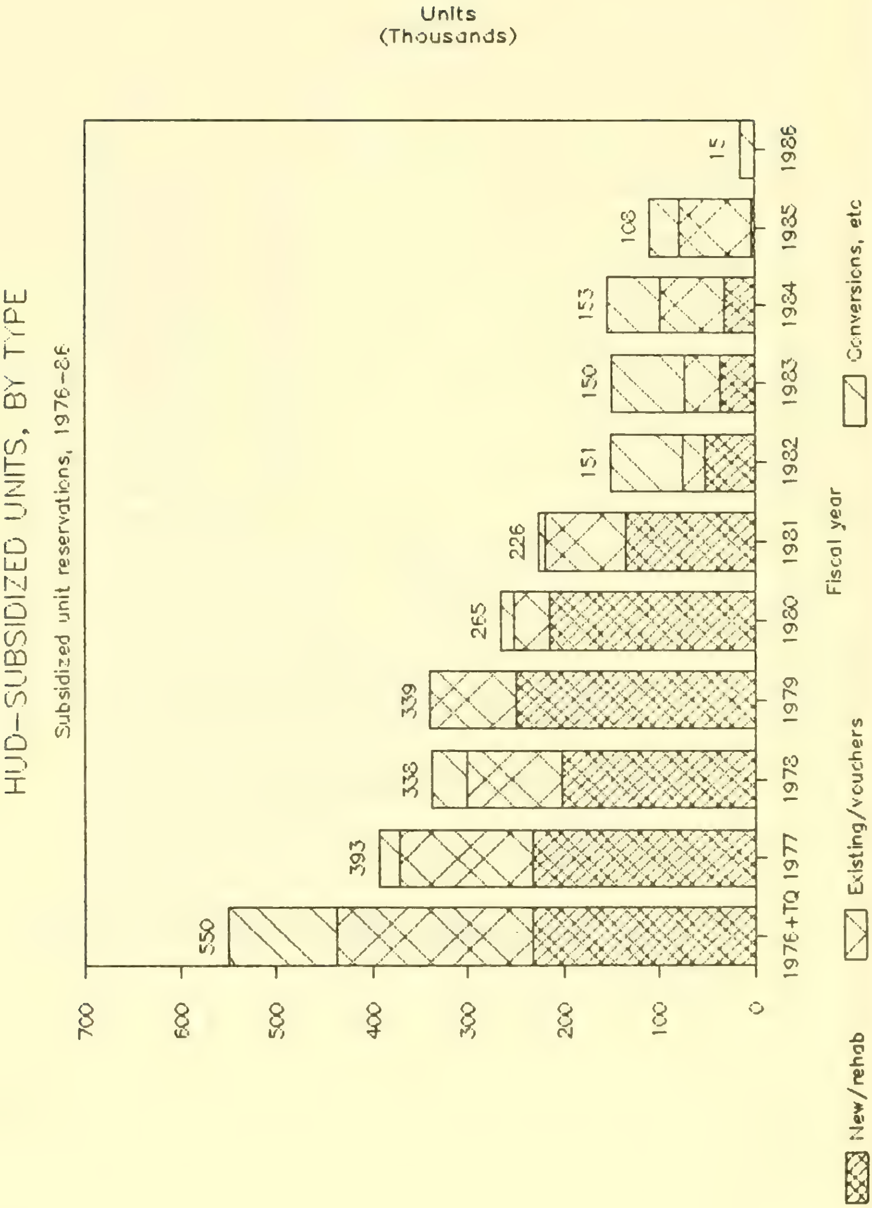
TABLE 6. REVENUE LOSSES FROM TAX EXPENDITURES, 1980-86
(In millions of dollars)
(Data from Administration 1986 Budget)

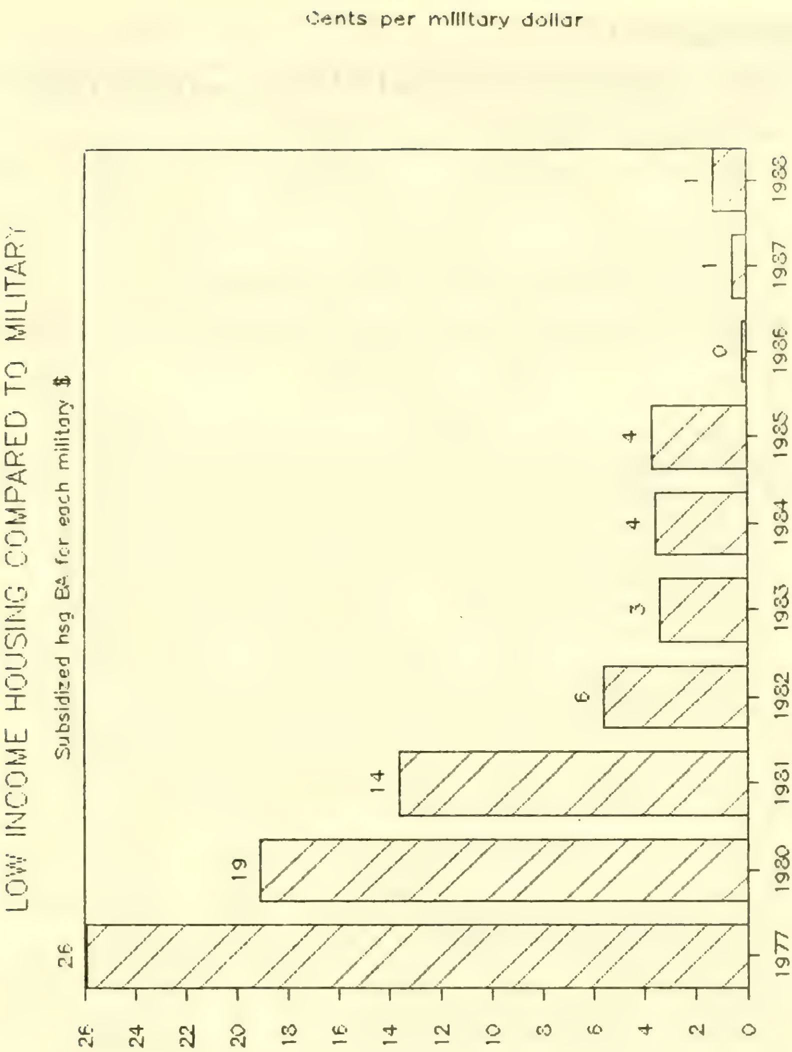
	FY 1980	FY1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	Change 1985-86 Amount	Change 1985-86 Percent	Change 1980-86 Amount	Change 1980-86 Percent
HOMEOWNER DEDUCTIONS:											
Mortgage interest deductions	15,615	20,145	23,305	20,800	22,735	24,925	27,300	2,375	9.5%	11,685	74.8%
Property tax deductions	7,310	9,125	8,360	8,010	8,820	9,725	10,745	1,020	10.5%	3,435	47.0%
Subtotal	22,925	29,270	31,665	28,810	31,555	34,650	38,045	3,395	9.8%	15,120	66.0%
Capital gains deferral	1,010	1,160	1,625	1,325	1,705	1,780	1,885	105	5.9%	875	86.6%
Capital gains exclusion	535	450	585	600	755	805	860	55	6.8%	325	60.7%
Residential energy credits											
Supply incentives	--	--	250	325	325	330	315	(15)	-4.5%	--	--
Conservation incentives	--	--	220	285	270	245	190	(55)	-22.4%	--	--
Subtotal	485	575	470	610	595	575	505	(70)	-12.2%	20	4.1%
TOTAL	24,955	31,455	34,345	31,345	34,610	37,810	41,295	3,485	9.2%	16,340	65.5%
INVESTOR DEDUCTIONS:											
Tax exempt bonds											
Owner-occupied units	--	--	905	1,360	1,500	1,850	2,255	405	21.9%	--	--
Rental housing	--	--	395	710	730	910	1,105	195	21.4%	--	--
Subtotal	447	1,120	1,300	2,070	2,230	2,760	3,360	600	21.7%	2,913	651.7%
Five-year rehab amortization	15	30	45	60	60	70	75	5	7.1%	60	400.0%
Expensing of interest etc	659	755	--	--	--	--	--	--	--	--	--
Excess depreciation	385	--	--	695	680	775	850	75	9.7%	465	120.8%
"All-Savers" certificates	0	0	0	935	320	0	0	0	--	0	--
Subtotal	1,059	755	980	1,980	1,060	845	925	80	9.5%	(134)	-12.7%
TOTAL	1,506	1,875	2,280	4,050	3,290	3,605	4,285	680	18.9%	2,779	184.5%
GRAND TOTAL	26,461	33,330	36,625	35,395	37,900	41,415	45,580	4,165	10.1%	19,119	72.3%
PERCENT OF TOTAL:											
Homeowner deductions											
Interest + property taxes	86.6%	87.8%	86.5%	81.4%	83.3%	83.7%	83.5%				
All homeowner deductions	94.3%	94.4%	93.8%	88.6%	91.3%	91.3%	90.6%				
Investor deductions											
Tax-exempt bonds	1.7%	3.4%	3.5%	5.8%	5.9%	6.7%	7.4%				
Other	4.0%	2.3%	2.7%	5.6%	2.8%	2.0%	2.0%				
All investor deductions	5.7%	5.6%	6.2%	¯11.4%	8.7%	8.7%	9.4%				

Source: Low Income Housing Information Service
Calculated from Special Analysis G, 1986 and prior budgets


HUD—SUBSIDIZED NEW/REHABBED UNITS
Reservations, Starts, Completions
Units
(Thousands)
0
50
100
150
200
250
300
350
400
450
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
Fiscal year
157
48
119
434
79
133
372
129
50
301
179
101
340
184
161
251
183
177
218
144
218
75
119
145
72
81
134
98
42
108
78
33
102
0
23
105
Reservations
Starts
Completions


ADDT'L ASSISTED HOUSING UNITS, 1976-86
Incremental HUD and FmHA Units
(Thousands)
700
600
500
400
300
200
100
0
545,977
469,658
401,814
454,875
361,393
322,447
169,708
153,672
175,065
164,836
0
1976+TQ
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
HUD reservations
Farmers Home units


HUD-SUBSIDIZED UNITS, BY TYPE
Subsidized unit reservations, 1976-86
Units
(Thousands)
700
600
500
400
300
200
100
0
550
393
338
339
265
226
151
150
153
108
15
1976+TQ
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
Fiscal year
New/rehab
Existing/vouchers
Conversions, etc


LOW INCOME HOUSING COMPARED TO MILITARY
Subsidized hsg BA for each military $
Cents per military dollar
26
19
14
6
3
4
4
0
1
1
1977
1980
1981
1982
1983
1984
1985
1986
1987
1988
0
2
4
6
8
10
12
14
16
18
20
22
24
26

National Low Income Housing Coalition

323 Eighth Street, N.E., Washington, D.C. 20002 • (202) 544-2544

Hon. Edward W. Brooke, *Honorary Chairperson* Cushing N. Dolbeare, *President*

LOW INCOME HOUSING POLICY STATEMENT

As amended at the Second National Low Income Housing Conference

BASIC PRINCIPLES

Decent, safe and sanitary shelter is one of the bare necessities of life. All people share the basic human right to live in dignity, safety, and security. The federal government bears the fundamental responsibility for ensuring that the opportunity to obtain decent, affordable housing with a choice of location is available to all in our society -- regardless of race, creed, age, family composition, or income level. All housing programs should be responsive to consumer, tenant, neighborhood and community needs and preferences, and accessible to all without regard to race, creed, gender, family composition, or handicap.

The federal government has the responsibility and the resources to ensure that adequate housing for low income people is provided throughout the United States: in inner cities, in suburbs, in small towns and rural areas. Only the federal government can mount programs which provide uniform standards and protections, while leaving flexibility to states, local governments, and other institutions, including the private sector, to adapt them to the range of housing needs which exist in our country.

Federal housing expenditures should give highest priority to those with the most critical housing needs: people living in inadequate housing; people displaced or threatened by displacement, from whatever cause; and people whose incomes are too low to bear the high cost of decent shelter.

These basic principles are fundamental and should undergird all housing policy and program development. Moreover, there is no single approach which, in and of itself, will deal with our low income housing problems. Making decent housing a reality will require a range of policies and programs. In our view, the eight elements of this policy (set forth below) are all essential. They are not alternatives, and none can be omitted. We recognize that there are, in addition, special housing needs which must be addressed: housing for homeless people, for elderly people, for people with disabilities, for special groups such as farmworkers and Indians. We believe that specific approaches to assure that those people's needs are met should be developed within the framework of our policy.

Explanation. After close to half a century of housing assistance, there are still millions of people who need it. For every very-low-income renter household living in subsidized housing, there are three others who need it, who probably want it, and who can't get it -- 7.5 million households in all. There are another 10 million owner households in the very-low-income category: households with incomes below 50% of median. Furthermore, we have barely begun to root out housing discrimination.

Moreover, despite the accomplishments of federal housing programs, which now provide shelter to one renter household in 10, there is a growing low income housing crisis. Homelessness is increasing dramatically. Housing quality, after decades of improvement, has begun to decline. Between 1970 and 1980, low rent units (under $125 per month) were disappearing from the inventory at the rate of almost 500,000 units annually, because of rent increases, conversions, and demolitions.

Meanwhile, the federal government has all but abandoned its historic commitment to "a decent home and a suitable living environment for every American family" as low income housing programs have been slashed more deeply than any other major federal activity. The number of additional subsidized units provided under all HUD and Farmers Home Administration programs has dropped from 321,000 in 1981 to fewer than 154,000 in 1983.

It has long been recognized that there is simply no way the private sector, unaided and on its own, can provide affordable housing for very low income people. Nor do state and local governments, without federal aid, have the resources to meet the housing needs of their low income residents. Therefore, the primary responsibility for assuring adequate low income housing must rest with the federal government. This responsibility should be carried out in ways that are appropriate to the diversity of housing needs and housing markets, and which elicit the involvement and support of state and local government and a broad range of actors in the private sector.

1. MAKE HOUSING ASSISTANCE AN ENTITLEMENT FOR ALL WHO NEED IT

An adequately funded entitlement, income-based housing assistance program is essential to enable low income people to obtain decent housing at costs they can afford. We propose housing allowances recognizing that they must be coupled both with increases in the housing supply and with changes in housing ownership and management, which we address in other portions of this statement.

No one should have to go hungry or do without other essentials because their housing costs too much. No one should have to live in a rural shack or rundown urban unit because decent housing costs more than they can afford.

The federal government should provide housing assistance to all households who cannot otherwise afford decent housing. The assistance should be available to both renters and owners, in comparable amounts based on need.

The amount should be sufficient to cover the difference between what the household can afford and the cost, including utilities and other housing-related expenses, of decent housing of the size they need in their chosen housing market area. The program should be designed both to provide adequate subsidies and to avoid windfalls to landlords. Occupied housing must meet minimum quality standards.

Explanation. Housing allowances, in and of themselves, have negligible impact on the supply of decent housing. Therefore, a housing allowance program available to all eligible households will heighten the need for low income housing supply programs. Nevertheless, housing allowances must be a major element in any comprehensive approach to dealing with low income housing needs. Where the problem is income alone, as with households occupying standard units at unaffordable rents, allowances are clearly the answer.

One problem that has plagued previous efforts to subsidize housing for low income people is that often their incomes are so low that they can't even afford operating costs (maintenance, utilities, taxes, etc), so subsidies for construction or financing have been inadequate. By assuring that all households have sufficient funds at least to cover operating costs, a housing allowance program will make it far easier to mount successful approaches to preserving, building, or rehabilitating housing for low income people.

The basic problem of very low income households is that they can't pay what decent housing costs. The vast majority of households paying more than half their incomes for shelter can afford less than $125 per month!

In 1981 the Annual Housing Survey reported 5.4 million renter households and 2.4 million owners who paid more than half their incomes for shelter; their median incomes were below $6,000. Most of these households lived in standard housing but had to forego other basic necessities in order to pay for it.

Another 9.0 million renter households and 8.1 million owners paid between one quarter and one half their incomes for shelter. Except for owners with mortgages, their median incomes were less than $12,000.

Rough estimates of the cost of a housing allowance program such as we propose range from $10 to $20 billion annually. This is about half the cost of housing subsidies provided to the wealthy through the tax code, primarily through the deductibility of mortgage interest and property taxes from federal income tax. (See Tax Reform, below.)

The National Low Income Housing Coalition is now developing specific proposals for a housing allowance program, recognizing that there are problems in both assuring decent quality and avoiding windfalls to owners.

2. PROVIDE AN ADEQUATE AND AFFORDABLE SUPPLY OF HOUSING

Federal housing programs should support the preservation, construction or rehabilitation of an adequate and affordable supply of housing to meet the needs of low-income people and to maintain the quality and viability of neighborhoods. Until low income housing needs are met, at least 750,000 additional units of assisted housing for low income people should be added to the inventory each year.

Our housing stock must be adequate overall to meet the growing and changing needs of our people. Housing for low income people must be supplied in ways that minimize construction, financing, and occupancy costs, while enhancing neighborhood viability and enlarging housing choice. Supply needs include rehabilitating substandard units and building new ones, as well as preserving the existing low income housing stock. Adequate attention must be paid to changing needs and preferences. Provisions should be made for the use of shared housing, single-room occupancy and other nontraditional types of housing, such as manufactured homes and other nonconventional construction, on the same basis as other housing provided it meets health and safety standards.

No one housing program or approach can adequately deal with the range and diversity of our housing needs. Current federal housing supply efforts -- including public housing, Section 8, Farmer's Home Administration rural programs and the rental development grant program enacted in 1983 -- should be continued, improved and expanded, while exploration continues for approaches that will be better targeted, less costly and more responsive to neighborhood and resident needs. The direct and indirect costs of providing lower-income housing should be reduced by eliminating excess profits, simplifying delivery, placing greater reliance on grants rather than reducing interest costs of long-term loans, and offering credit selectively to provide lower interest rates for housing finance.

The specific needs to be met and the mix between preservation, rehabilitation, and new construction should be determined at the local or state level, subject to federal guidelines and review to assure that the full range of housing needs is considered and adequate opportunity for mobility is provided.

To minimize costs and create greater responsiveness, federal incentives should be provided for reviews of local construction, fire, housing, zoning and subdivision requirements. Manufactured homes and other forms of nontraditional housing that meet basic health and safety standards should not be discriminated against by land use regulations or tax policy and should be eligible for federal assistance. Traditional building materials, such as adobe, and new materials that promise lower costs or greater durability without compromising health and safety standards should be permitted.

Explanation. Almost half a century of providing subsidized housing has produced fewer than four million new or rehabilitated units of housing restricted to lower income occupancy under all urban and rural housing programs.

The long-run costs of low income housing can best be kept down by providing an increasing stock of units under public, nonprofit, or occupant ownership and thus decreasing the adverse impact of speculation and inflation on housing. Thus, low income housing supply programs are an essential component of an overall policy.

The proposal that at least 750,000 affordable units be provided each year for low income people sets a specific goal that will enable low income people to catch up. This would, over a 10-year period, provide housing for the 7.5 million very-low-income renter households for whom subsidized housing is now unavailable.

3. RETAIN AND IMPROVE THE PRESENT HOUSING STOCK TO PROVIDE DECENT HOUSING FOR LOWER INCOME PEOPLE

Our existing housing stock is a valuable national resource that must not be allowed to deteriorate. The ownership of housing should be regarded as a public trust, and all owners should have the responsibility to keep their units occupied and in decent condition. The federal government has a special responsibility to see that units which it owns or assists are maintained in viable condition and retained for low income occupancy.

Preserving and making best use of our stock of existing housing is key both to the provision of decent, affordable housing for low income people and to viable neighborhoods. The basic responsibility for keeping housing occupied and in decent condition rests with its owners.

Because housing is a basic human need, and because the use and condition of housing has a large impact on our neighborhoods and communities, we believe that the ownership of housing carries with it a public trust, which should be reflected in public policy and laws. The responsibility to keep housing in decent condition is already recognized in local housing codes and code enforcement programs. We believe that there should be a similar responsibility to keep housing occupied, provided there are those who are ready and willing to live in it. This should be a basic goal of public policy at the federal, state and local levels. Where these policies fail, we support organized, responsible squatting efforts to rehabilitate vacant and abandoned properties and return them to use.

The current stock of federally assisted and insured housing now occupied by low and moderate income people must be retained for their use, with the necessary operating subsidies and modernization or improvement funds provided to keep it in viable condition and fully occupied. (This includes all present public housing, HUD-assisted, HUD-insured and HUD-held units, as well as units assisted by the Farmers Home Administration or repossessed by the Veterans Administration.)

So long as the need is there, every housing unit that the federal government subsidizes or takes possession of through delinquency or foreclosure should be made available, with adequate subsidies, for low income people. The federal government should also encourage state and local governments to do the same with housing that comes into their possession or control.

<u>Explanation</u>. Over the past several years, we have had a steady loss of low rent units from the housing stock. Much of this loss has been the direct or indirect result of federal policies, including the provisions of the tax code that provide strong incentives for sale or conversion of rental housing to higher income use. In addition to these private sector units, we are threatened with the loss of thousands of units from the subsidized stock through demolition, sale, conversion or other disposition of projects. This must be halted.

The least expensive way to provide decent, affordable housing is to maintain our present housing stock in good condition, and, where it is already subsidized, to retain it for low income use. It is penny-wise and pound-foolish to skimp on needed subsidies or assistance for operations, maintenance and modernization, or to permit low income units to be demolished or converted to higher income use.

Too often, low income housing programs have been administered with more emphasis on restraining spending than on providing decent homes and living environments. Too often, the federal assistance provided has been inadequate to operate or maintain the units. Too often, tenants have been blamed for this state of affairs. Too often, subsidized housing developments have been regarded as problems, not as the resource needed to meet critical housing needs. In these times of low income housing crisis, no unit that can be used by low income people should be abandoned.

4. <u>PROVIDE RESIDENT CONTROL OF HOUSING THROUGH A STRONG ROLE FOR TENANT ORGANIZATIONS, LIMITED EQUITY COOPERATIVES, COMMUNITY-BASED HOUSING GROUPS, AND HOME OWNERSHIP.</u>

<u>Housing is an essential part of the basic fabric of our communities and neighborhoods. To a large degree, our housing affects the nature of our family and community life. Control of one's housing provides a stake and a sense of security that can be provided in no other way. Therefore, federal housing programs should foster a variety of approaches to resident control over housing, including genuine tenant participation in decision-making, ownership of housing by community-based, nonprofit organizations, limited equity cooperatives, and individual home ownership.</u>

Community based, nonprofit organizations and limited equity cooperatives should have a major role in the provision of housing. Federal assistance should be provided to these organizations to enable them to meet the broad range of housing needs at the neighborhood and community level.

Federal housing programs should be structured to directly support and assist community-based nonprofit organizations and limited equity cooperatives to become major housing providers. This requires access to financing, including subsidies where necessary, and technical assistance and outreach, particularly to minority communities, and organizational support and funding. This will require a long-range approach with strong emphasis on capacity-building, particularly in rural areas and for organizations in low income communities without prior experience in producing or managing housing.

Tenant participation in decision-making on management and operations should be required in all assisted housing programs. This includes funding for tenant organizations and tenant-elected, voting representatives on boards of housing authorities and other institutions owning or operating subsidized housing.

All tenants in federally assisted housing should have at least the following minimum protections against unfair treatment: (a) prohibition of unconscionable lease terms and utility shut-offs; (b) eviction only for just cause; (c) information on their rights and access to fair procedures for settling grievances; (d) reasonable landlord rules and requirements; and (e) warranty of habitability and remedies of repair-and-deduct, rent withholding, and rent abatement upon breach of the warranty. State and local governments should adopt comparable standards for private, nonassisted housing.

Low income households should not be confined solely to the rental housing stock. New home ownership programs, in both rural and urban areas, are needed to provide this option. Housing subsidies covering utilities, taxes, and maintenance, as well as assistance in downpayments, closing costs and low interest or deferred payment mortgages, should be extended to home owners. Adequate counseling services should be available.

Low income families who now own or are buying their homes should receive affirmative government assistance to maintain themselves in their homes. Such assistance should include bilingual information on programs and assistance available from lenders and the government; emergency mortgage and foreclosure relief; property tax relief based on income; assistance with utility costs, repairs, and maintenance; weatherization and retrofitting.

<u>Explanation</u>. A major thrust of our policy is to create more responsive institutions and to transform the production and management of low income housing, so that control is in the hands of residents. This cannot be done overnight and is best approached by enabling limited-equity cooperatives and nonprofit organizations to build their capacity to the point where they become the major providers and managers of housing occupied by low income people, as well as by supporting more traditional forms of home ownership.

This emphasis is to put control where we believe it belongs, to provide mechanisms for accountability, and to keep long-run costs down.

The recommendations on tenant participation are to assure control and accountability. They are phrased to give tenants themselves the choice of how deeply they wish to be involved in day-to-day management decisions.

5. END DISPLACEMENT OF LOW INCOME PEOPLE

Displacement of low-income people by either public or private action or inaction should be ended. Under no circumstances should people be forced to leave a neighborhood where they wish to remain. When displacement from a particular unit cannot be avoided, alternative housing should be provided nearby, in the same block whenever possible. Until this objective is achieved, federal policies and programs should provide immediate and adequate protection for people threatened by displacement.

National policy should focus on the prevention of displacement by private as well as public actions. Housing and community and economic development programs should be designed and carried out so as to benefit low-income people and their neighborhoods. Federal programs should, as a condition of participation, require local public officials to carry out the policy and, if displacement nevertheless occurs, to replace any low income units lost on a one-for-one basis and cover all costs of moving. Effective means must be developed for carrying out this responsibility.

The antidisplacement efforts of neighborhood organizations, such as community development corporations, community credit unions, neighborhood planning, and neighborhood counselling should be aggressively supported by all levels of government and the private sector.

Condominium conversions should not be allowed to displace tenants or reduce the stock of low- or moderate-income housing. All conversions should require the approval of a majority of the building's tenants, and tenants in units subject to conversion should have the choice of life tenancy at limited rents or the first option to buy their unit and 180 days to decide. This will require the development of new programs of housing assistance for continued rental or purchase where tenants have limited means. The special problems of displacement from mobile home parks, through conversions or for other reasons, must be addressed.

Low income conversion options, such as limited equity cooperatives or subsidies for condominium ownership, should be developed, and adequate technical assistance and funds for low income purchase and rehabilitation provided.

Explanation. Displacement is a major threat to low income people. Some displacement occurs through direct public taking. More occurs because of private activity, generally stimulated by public efforts such as tax incentives or publicly supported revitalization activities. In other neighborhoods, displacement is caused by neglect and government inaction, or the writing off of neighborhoods as

no longer viable and the withdrawal of services from them. A particular, often-unrecognized problem is displacement from mobile home parks, whose owners wish to convert to other use; frequently, because of exclusionary policies, there are no alternative mobile home sites in the communities where these parks are located.

It has been estimated that each year in this country, displacement afflicts some 2.5 million people and 500,000 low rent units are lost.

In addition to conditioning federal assistance on adequate state and local efforts to prevent displacement, the federal government can do three things to deal with this situation: (1) it can assure that its own funds and programs are not contributing to displacement; (2) it can see that people are not displaced from federally owned or controlled housing; and (3) it can assure that replacement housing is provided for people displaced by other causes on a one-for-one basis at comparable rents.

6. STRENGTHEN AND ENFORCE FAIR HOUSING LAWS AND EQUAL OPPORTUNITY REQUIREMENTS

To protect against discrimination in housing, the present federal fair housing law must be aggressively enforced and strengthened to provide for effective administrative enforcement procedures, and expanded to protect persons with disabilities and families with children. Housing choices for low income families must be geographically expanded, especially in relationship to job opportunities.

Enforcement of the existing law (Title VI of the Civil Rights Act of 1964 and Title VIII of the 1968 Civil Rights Act) by HUD, FmHA, VA and the federal financial regulatory agencies should be strengthened. HUD should issue and enforce substantive regulations implementing Title VIII.

FmHA and HUD should adopt affirmative policies to prevent any discrimination against families with children in federally assisted housing. Federal policies and programs should provide an adequate support of housing for large, low income families.

Low income households must be provided with a wide range of geographic choice for decent and affordable housing. This is particularly true where the decentralization of jobs has made many employment opportunities inaccessible to low income persons. Communities should be responsible for seeing that housing opportunities are provided for the people who work there. To help keep older areas viable, there is a concurrent responsibility to provide job opportunities where people now live.

A condition for provision of housing or community development funds to state or local governments should be a fair housing plan with the following federally approved minimum elements: (1) a plan for enforcing a fair housing law at least equivalent to the

federal law; (2) a plan for the identification and continued review of barriers to fair housing, including a review of zoning and land use regulations; (3) a strategy for meeting fair housing needs, including a review of the human rights impact of all major development activities; (4) a means for outreach, education and involvement of all relevant sectors of the community in promoting fair housing policy, and (5) a plan for inter-jurisdictional coordination of fair housing activities.

Explanation. Despite passage of the fair housing law almost a generation ago, discrimination is still a fact of life in housing markets. In large part this is because of the absence of effective enforcement provisions in the federal fair housing law. In addition, the law does not now cover discrimination against families with children or persons with disabilities. We therefore join in supporting a stronger federal fair housing law, as proposed by the Mathias-Kennedy bill.

This is an important first step, but additional measures will be needed to root out housing discrimination. Positive action is necessary to link responsibility to provide low income housing with the location of jobs and opportunities for employment and education. State, local, and regional planning must include consideration of fair housing impact and measures to overcome discrimination and widen housing opportunities.

7. REFORM FEDERAL TAX LAWS TO REFLECT PRIORITY FOR AIDING PEOPLE WITH THE GREATEST HOUSING NEEDS

The enormously costly and inefficient housing subsidies that are now provided through the tax code should be changed to direct them where they are needed and productive. Mortgage interest and property tax deductions should be converted to tax credits, and the amount of these credits should be capped at a level which will protect low and middle income home owners while curtailing subsidies to people who do not need them to obtain affordable housing. The additional revenue obtained by doing this should be used to meet low and middle income housing needs.

As soon as adequate supply and financing programs are put in place, the special tax subsidies and preferences provided to investors through the tax code should be ended. Until then, they are needed to supplement the pitifully low level of federal, state and local housing assistance programs and to make most of these programs viable, but they should be as tightly targeted as possible, and the targeting provisions should be rigorously enforced. Cooperatives should be eligible for tax subsidies on the same basis as rental housing. The tax subsidies that are now provided for syndication of rental housing developments should be made refundable (payable directly in cash where no taxes are owed to offset the deductions), so that nonprofit and community based housing groups can get the full amount of the federal subsidy, without having to split it with investors who otherwise have no interest in the project.

Federal tax laws, which now force many investors in rental housing to sell or convert, should be amended to remove these incentives and discourage displacement. Pending such change, sales to tenants or tenant organizations should not be subject to discriminatory, differential tax provisions. Where housing will be sold to tenants or nonprofits approved by tenants, prenegotiated prices should be permitted.

Explanation. Each tax dollar that the federal government does not receive because of deductions or preferences in the tax code has just as much impact on the deficit as each dollar of direct spending. Viewed in this context, most federal housing expenditures are tax expenditures. Most middle income home owners count on these subsidies. But these owners receive less than one-third of the total subsidies. Meanwhile, low income owners and renters are excluded from housing assistance, and the bulk of our tax expenditures for housing goes to people at the top of the income distribution. (The cost of these subsidies is more than four times the amount appropriated for low income housing for fiscal 1984.)

1984 housing-related tax expenditures are estimated by the Congressional Budget Office at about $50 billion. About 75% of this amount goes to the top 15% of the income distribution. Cutting in half the amount received by the rich, and leaving the rest unchanged, would increase federal revenues by enough to cover the cost of all our other proposals.

There are clear indications that overhaul of federal tax laws will be a major concern in coming years. Because of this, and because of the great current importance of tax provisions to the production and management of housing, it is critical that housing advocates participate in the process, and that tax reforms be adopted which protect the needs of low and middle income people, while avoiding windfalls and inefficient subsidies.

8. PROVIDE THE FINANCING NEEDED TO PRESERVE, BUILD, AND REHABILITATE HOUSING.

Monetary and credit policies should be shaped to provide reasonable financing costs for housing and limit credit-related fluctuations which increase the costs, prices, and rents of all housing. Affordable property insurance and affordable financing for the purchase, renovation and improvement of housing should be available in all neighborhoods, without discrimination of any kind.

Our nation's housing needs cannot be met if financing is unavailable or unaffordable. The needed flow of credit into housing must be maintained, as must institutions capable of providing it at the community and neighborhood level. Housing should be protected, through national credit allocation or other mechanisms, from the impact of federal monetary and credit policies. Credit institutions, such as savings and loan

associations, established primarily to provide financing for housing, should not be permitted to abandon this special purpose. We support the establishment of an explicit housing finance mandate for thrift institutions to help assure the flow of housing credit.

Federal policy should encourage a continued supply of housing loans that do not expose homeowners to excessive interest rate risk or refinancing uncertainty. Consumer protections for borrowers who obtain adjustable rate mortgages and continued availability of standard fixed rate mortgages for those borrowers who desire them should be guaranteed by legislation.

Federal oversight of the obligation of all depository institutions (savings and loans, savings banks, and commercial banks) to serve the housing credit needs of their entire community, including low and moderate income areas, older urban neighborhoods, rural areas, and minority and female-headed households, should be strengthened, and the Community Reinvestment Act should be vigorously enforced.

Beyond these general approaches, aimed at creating a climate for steady production of unsubsidized housing, a variety of special mechanisms are needed to support the production and rehabilitation of housing for low income people. We believe new institutions are needed, such as housing trust funds or a national housing bank, to provide community based groups and limited equity cooperatives with financing for low income housing, including, as appropriate, grants, interest-free or low interest loans, graduated interest loans or whatever financing is required to produce the housing needed. These funds could be used to supplement or leverage funds from other sources, including state, local, and private funds.

Foreclosure relief should be provided to owners threatened with loss of their homes for reasons beyond their control as well as for tenants threatened with displacement because of foreclosures on owners.

Explanation. Housing has long been peculiarly vulnerable to monetary policy and fluctuations in the cost of credit. The problem of obtaining adequate credit affects much of the housing market, but is particularly critical to efforts to provide low income housing. Federal deregulation has undermined the role of savings and loan institutions, long the major source of housing credit, as a primary source of funds for housing. While these institutions may need added asset flexibility because of decontrol of interest rates on deposits, there is no reason to permit them to abandon their role as housing specialists. A federal housing mandate is required to enable thrift institutions to resist pressures to expand into commercial and other short term lending.

During the credit crunch of the past several years, the mortgage market shifted rapidly to adjustable rate and short term balloon mortgages that shift considerable risks of higher interest rates and refinancing uncertainty to home

purchasers. Legislation is needed to assure a continuing supply of fixed-rate mortgages and to minimize the risks to the consumer of adjustable rate or balloon mortgages. Continued oversight is also needed to assure that the mandate to serve community needs is followed in the face of pressures on financial institutions to orient their services toward upper income and large depositors.

Our housing needs are too important to leave the availability of funds to the whim of the marketplace. We need a continued, positive commitment by the federal government to do what is necessary to see that credit for housing is available on reasonable terms.

Even where programs are in place, financing is often an almost-impossible barrier, particularly to community-based groups. For this reason, the Coalition is actively exploring new financing mechanisms, which can provide needed funds on an affordable basis.

[Note: This statement was adopted by the National Low Income Housing Coalition after a long process of review and comment, beginning with distribution of a draft to our membership in August 1983, with requests for additional ideas and comments. An estimated fifty groups around the country held special meetings to discuss the draft, or incorporated a discussion in their regular meetings. The statement was revised in the light of the comments received, reviewed by the Coalition's Board on March 5. Board members reviewed the draft with changes made in the light of the March 5 discussion, and the statement, again revised to reflect the comments received, was adopted by the Executive Committee on March 29. If appropriate, it will be reviewed again after the Second National Low Income Housing Conference so that changes or additions suggested there can be incorporated.]

Senator HECHT. Mr. Laden.

STATEMENT OF JOSEPH F. LADEN, PRESIDENT, PUBLIC HOUSING AUTHORITIES DIRECTORS ASSOCIATION, WASHINGTON, DC

Mr. LADEN. Mr. Chairman, my name is Joseph Laden, and I'm the president of the Public Housing Authorities Directors Association, representing 800 public housing authority, executive directors throughout the United States and its territories.

I would like to congratulate the committee for its selection of its chairman.

Senator HECHT. Thank you.

Mr. LADEN. And I want to share one particular item for which I am personally indebted to the Las Vegas Housing Authority. They run a training program and I've sent some of my maintenance supervisors to Las Vegas to be trained. It's a good, well-managed authority. And I hope when you're home and you visit, you will——

Senator HECHT. The two press people from Las Vegas are not in the room now. That's most unfortunate. Perhaps you'll repeat that at a later time when I give you the cue. [Laughter.]

Mr. LADEN. Anytime. Mr. Sartini is a member of our organization and he's been very, very helpful.

Senator HECHT. Thank you very much.

INADEQUATE BUDGET

Mr. LADEN. The proposed HUD budget for 1986 is totally inadequate and actually designed not just to reduce but to almost destroy some of the existing programs. Operating subsidies are vital to our programs. Yet, HUD proposes $1 billion for 1986 compared to the present year of $1.24 billion, and actual expenditures in 1984 of $1.2 billion.

We realize the budget constraints and we recommend that consideration be given to approving $1.24 billion. We—referring to other members of the panel—didn't get together on our figures but they're not too far apart. We include the inflation factor.

Now, HUD justifies the reduction of operating subsidies by discussing the savings from vacancies. Yet, they have not been able to come up with a regulation. And it's my understanding, in talking to some of the HUD officials, they realize that now they will not be able to get an effective regulation in on the vacancy issue during this current year, the budget year coming up.

There are many problems involved in vacancies. Sometimes, it costs more to maintain a vacant unit because of security and other items than a unit that is being rented.

They talk about a freeze in operating expenses. It is unrealistic. We have multiyear labor contracts. We have utility increases to approve by public service commissions and we have rising insurance costs and other costs.

The freeze would only be possible by having us take funds from our present reserves and then, in the future, we would have additional problems.

We urge the full funding of the subsidies at the $1.24 billion.

The next, and probably one of the most important and successful programs for public housing is the CIAP Program. It's the best program we have, and it's been paying off.

Housing is being improved throughout the country. Utility costs are steadily being reduced. Now HUD wants to reduce the program. The present allocation of $1.725 billion, providing capital funding of $847 million, will be cut under the HUD proposal to a bare bones of $175 million for 1986.

This would effectively stop the program. In 1987, HUD wants to approve only $761 million in capital expenditures—$100 million below what is being provided in 1985.

Now, Congress, in its wisdom, has ordered the Abt study. The Abt study is in process now. I've served on that study's advisory committee. I'm convinced personally that the documents that they've assembled and are now about to go in the field with will provide a study that when it comes back—and the study is to be returned to Congress, not just to HUD—will give not only the administration but Congress a good handle on what the modernization needs would be in the future.

Now is not the time to make a change in the funding of the program. Let's go with the same program we have now and continue it at the same level and when we get the results back, let's see what methods will be used and how we will change the funding.

HUD wants to pay off the ACC debt in 1 year and increase the national debt by $14 billion. HUD justifies this by claiming savings in future years. The financial markets are looking for reduced debt this year. This is not the year to increase the debt by $14 billion, regardless of what they tell us about it.

HUD proposes no production. We have long waiting lists throughout the country. There's certainly evidence of the need for increased production. One of the most difficult jobs each executive director has to face each day is to explain to people in desperate need why PHA's have no room. It is a very difficult thing to have to do. And, unfortunately, we have to do it all the time.

HUD has proposed vouchers for several years, yet requested none this year. Where have the vouchers gone? I don't know.

We recommend that the committee take a good look at H.R. 1 and our association supports this legislative effort. We support in particular H.R. 1's provision to restrict HUD's regulatory actions. HUD has been doing too much tinkering with our PFS and other items, and we're very concerned about this. We strongly oppose their recent actions and regulations concerning interest and rent recapture, and we believe that they have to be put under control by Congress. We need more watch dogs on that item.

The HUD administration is now making an effort—in fact, they have already made the effort—they're going to reduce the administrative fees in section 8 by 10 percent; claim it's a freeze for 1 year. Once it's there, I doubt if it will be returned.

In addition to that, they want to freeze the section 8 fair market rents at 1984 levels. This will make it more difficult to get landlords in the program. This is a good program. We've had very little difficulties with it. It's been administered well. The inspection of all the units are being made by the housing authorities and the ad-

ministrators and now is not the time to start to change the program and to cut the funds.

ELIMINATION OF FARMERS HOME ADMINISTRATION

HUD is proposing to eliminate the Farmers Home Administration and consolidate it with HUD without any justification. The rural poor are the poorest of the poor, and the Farmers Home Administration is best able to take care of them.

Our members who have worked with the Farmers Home Administration speak very highly of it. In fact, they spoke so highly of it, I tried to get them to finance some housing in the city and found out it was against the rules.

It's unfortunate Senator Proxmire has left the room but we did want to make some comment and almost apologize to him for one thing. The pet regulations were issued in the Federal Register and there were 2,664 comments. Of those comments, 2,297 disapproved of pets. Now I think all the interest groups have to apologize to Congress because we failed in our job to call to your attention that this was not necessary and was not a wise move. I, myself, did not realize how upset our senior citizen tenants would be when this regulation came out.

We ask you possibly, in the last minute, consider removing that provision. We have a position paper in progress and it will be submitted to every Member of Congress within the next 60 days, and we hope at that time you use it as a resource.

We also are very concerned, but we didn't include in our printed remarks—and I'm personally concerned about it—the issue of the homeless. Many people have spoken about the homeless. But, really, when you come down to the bottom line, if this HUD budget is approved and production totally stops, the homeless will increase.

We have the problem. In New York City, 15,000 of the 150,000 Federal units are doubled up. If John Simon was forced to have those people, you'd have to call the National Guard, and where they would put those 15,000 people, I do not know.

We are attempting, public housing authorities, wherever possible, to help address the problem. I know, in our particular city, we've set aside a number of units for homeless veterans because when they come to the VA hospital for outpatient treatment and they can't afford to stay in a motel, they have no place else to go. So we set up some temporary units for that type of thing.

And our housing authorities in New York State are applying for State funding to create some homeless shelters. We realize that you have a serious problem with the budget but we speak for the tenants, we speak for those that are in great need. We see them every day.

Senator HECHT. Do you want to summarize yourself?

Mr. LADEN. I'm all done.

[The complete prepared statement follows:]

Statement of

JOSEPH F. LADEN, President, Public Housing Authorities Directors Association

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, I AM JOSEPH LADEN, PRESIDENT OF THE PUBLIC HOUSING AUTHORITIES DIRECTORS ASSOCIATION (PHA/DA) AND EXECUTIVE DIRECTOR OF THE ALBANY, NY HOUSING AUTHORITY. FIRST AND FOREMOST, ON BEHALF OF PHA/DA I WANT TO THANK YOU FOR THIS OPORTUNITY TO TESTIFY BEFORE YOU AND TO APPLAUD THIS SUBCOMMITTEE ON ITS STRONG AND LONG RECORD OF CONCERN AND DEDICATION TO THE HOUSING NEEDS OF AMERICA'S LOW INCOME FAMILIES.

PHA/DA REPRESENTS THE EXECUTIVE DIRECTORS OF 800 PUBLIC HOUSING AGENCIES THROUGHOUT THE UNITED STATES AND, LADIES AND GENTLEMEN OF THE SUBCOMMITTEE, WE NEED YOUR HELP ONCE AGAIN. HUD'S PROPOSED BUDGET FOR FY 1986 FAILS TOTALLY TO ADDRESS THE EXISTING HOUSING CRISIS IN THIS COUNTRY. ONE FAILS TO SEE THE LOGIC OF HUD REFUSING TO FUND EITHER NEW DEVELOPMENT OR CAPITAL IMPROVEMENTS TO EXISTING STOCK WHILE PHA'S IN ALL REGIONS OF THE NATION NOW CARRY MULTI-YEAR TENANT WAITING LISTS. HUD'S BUDGET IS AT BEST SHORT SIGHTED, AT WORST, AN INDICATION THIS ADMINISTRATION INTENDS TO FULLY DIVEST THE FEDERAL GOVERNMENT OF ITS MORAL AND LEGAL OBLIGATION OF PROVIDING DECENT, SAFE AND SANITARY HOUSING FOR ALL AMERICANS.

OUR IMMEDIATE OBLIGATION IS TO ENSURE THE LIVEABILITY AND LONG TERM VIABILITY OF OUR EXISTING STOCK OF LOW INCOME HOUSING. TO THAT END WE URGE YOUR REJECTION OF HUD'S PROPOSED FUNDING LEVELS FOR PUBLIC HOUSING OPERATING SUBSIDIES AND THE COMPREHENSIVE IMPROVEMENT ASSISTANCE PROGRAM (CIAP).

HUD PROPOSES TO FUND OPERATING SUBSIDIES IN FY 1986 AT $1.01 BILLION. HUD'S ESTIMATE FOR PRESENT YEAR OPERATING SUBSIDY COSTS IS $1.24 BILLION; $1.20 WAS EXPENDED IN FY 1984. HUD BUTTRESSES ITS LOW FY 1986 REQUEST BY PROMISING TO SAVE FUNDS VIA A SOON TO BE ANNOUNCED

VACANCIES PENALTY REGULATION AND A ONE YEAR FREEZE ON PHA OPERATING EXPENSES. HUD'S 1984 PROPOSED VACANCIES RULE WAS RETRACTED AFTER CONSIDERABLE INDUSTRY PRESSURE. AS IT TURNS OUT, HUD HAD FAILED TO TAKE INTO CONSIDERATION BOTH THE COSTS OF MAINTAINING TEMPORARILY VACANT UNITS AND THE LEGAL OBSTACLES TO PROPERTY SALES AND DISPOSITION. THE PROPOSAL VIRTUALLY FORCED PHAS TO MODERNIZE OR SELL. INCIDENTALLY, NO NEW MODERNIZATION FUNDS WERE TO BE PROVIDED. IN FACT, HUD NOW PROPOSES TO FREEZE MODERNIZATION FUNDING. PHA/DA IN REVIEWING THIS HISTORY, MUST VIEW WITH SUSPICION HUD'S FINANCIAL PREMISE FOR THIS FUNDING CUT. REGARDING THE FREEZE, WHAT ARE PHAS TO DO WHEN BASIC MAINTENANCE ITEMS INCREASE IN PRICE OR WITH MULTI-YEAR COLLECTIVE BARGAINING AGREEMENTS? HUD SEEMS TO BE CREATING A BUDGET IN A VACUUM IGNORING BOTH OUTSIDE INFLUENCES AND ITS OWN RELATED BUDGET CUTS. DOING SO IS DISHONEST AND MISLEADING.

PHA/DA URGES CONGRESS TO PROVIDE FUNDING FOR OPERATING SUBSIDIES AT A LEVEL EQUAL TO HUD'S OWN FY 1985 ESTIMATE OF REAL NEED, $1.24 BILLION, PLUS AN APPLIED INFLATION FACTOR. IF THERE ARE IN FACT MAJOR SAVINGS TO BE HAD IN FY 1986 THOSE SAVINGS WILL NOT BE LOST BUT WILL BE APPLIED TO LATER YEAR COSTS. TO CUT FUNDING TO THE HUD PROPOSED LEVEL WOULD ALSO FAIL TO PROVIDE FOR UNEXPECTED PROBLEMS, SUCH AS A SEVERE WINTER AND ITS RELATED INCREASED ENERGY AND MAINTENANCE COSTS, AND PREJUDICE OUT YEAR BUDGETS.

ALSO NOTE THAT SHOULD HUD'S OTHER BUDGET CUTS BE PUT INTO EFFECT, THE CIAP FREEZE IN PARTICULAR, PHAS WILL BE FORCED TO DIP INTO THEIR OPERATING SUBSIDIES AND RESERVES FOR REPAIRS NORMALLY FUNDED UNDER NON-OPERATING SUBSIDY ALLOCATIONS.

THE ADMINISTRATION PROPOSES TO CUT CIAP FUNDING FROM AN FY 1985 LEVEL OF $1.725 BILLION IN BUDGET AUTHORITY EQUIVALENT TO $847 MILLION IN ONE YEAR CAPITOL FUNDING TO A LESS THAN BARE BONES $175 MILLION IN ONE YEAR FUNDING IN FY 1986. IN PRIVATE INDUSTRY, THE STANDARD TO WHICH THIS ADMINISTRATION WISHES US TO ASPIRE, THIS PROPOSAL WOULD BE RIDICULED. THE CIAP PROPOSAL ASKS US TO MAINTAIN A MULTI-BILLION DOLLAR INVESTMENT IN 1.2 MILLION UNITS OF PUBLIC HOUSING WITH $175 MILLION, NATIONWIDE. AND THEN HUD INFORMS US THAT FY 1987 NEEDS WILL BE ONLY $761 MILLION, ALMOST $100 MILLION BELOW FY 1985 FUNDING. WE ALL KNOW THESE ESTIMATES DO NOT REFLECT REALITY. TO FURTHER DELAY CAPITAL IMPROVEMENTS WILL LEAD TO INCREASED COSTS IN OUT YEARS. A REPAIRED BOILER IS ALWAYS CHEAPER THAN A REPLACED BOILER. REPAIRING ELECTRICAL DEFICIENCIES IS ALWAYS CHEAPER THAN REBUILDING A PROJECT DESTROYED IN AN ELECTRICAL FIRE.

AS THIS SUBCOMMITTEE IS WELL AWARE, A MAJOR NATIONWIDE, $4.5 MILLION SURVEY IS NOW UNDERWAY TO DETERMINE THE TRUE COSTS OF REPAIRING THE NATION'S PUBLIC HOUSING STOCK. MANDATED BY CONGRESS AND AGAINST HUD OPPOSITION, THIS SURVEY WILL PROVIDE A DETAILED ANALYSIS OF THE PRESENT STATE AND FUTURE NEEDS OF OUR PHA'S. IF HUD IS CONFIDENT ONLY $175 MILLION IN FY 1986 AND $761 MILLION IN FY 1987 ARE ALL THAT IS NEEDED, WHY, WE MUST ASK, DID CONGRESS DEMAND THIS SURVEY?

PENDING THE RESULTS OF THIS SURVEY HUD OUGHT TO FUND CIAP IN ACCORD WITH LEGITIMATE FY 1986 NEED. CONTINUATION AT FY 1985'S LEVEL OF $1.725 BILLION IN BUDGET AUTHORITY WILL ENSURE NO RADICAL DETERIORATION IN EXISTING STOCK. BY THIS TIME NEXT YEAR THIS SUBCOMMITTEE MAY HAVE SOME RESULTS FROM THIS SURVEY AND WILL BE BEST ABLE TO DETERMINE THE FUTURE OF THE MODERNIZATION PROGRAM. THAT

DECISION WILL BE BASED ON FACTS AND HARD DATA AND NOT UNRELATED ISSUES AND CONCERNS AS IN PRESENT HUD PROPOSALS.

OUR MEMBERSHIP IS ALSO VERY CONCERNED WITH HUD'S PROPOSAL TO CHANGE THE CIAP FUNDING MECHANISMISM FROM TAX EXEMPT BONDING TO UP FRONT FULL COST GRANTS. IN SO DOING THE ADMINISTRATION WOULD TRANSFER EXISTING CIAP AND DEVELOPMENT DEBT DIRECTLY TO THE FEDERAL DEFICIT, IMMEDIATELY INCREASING THE DEFICIT BY $14 BILLION. OMB CONTENDS THIS TRANSFER, WHILE INCREASING FEDERAL COSTS THROUGH THIS DECADE, WILL LEAD TO LONG TERM (POST 1990) SAVINGS. OUR CONCERN IS HAVING OPPONENTS OF HOUSING THE POOR WILL MISREPRESENT THIS DATA AND ACTUAL COSTS TO FURTHER CURTAIL OR ELIMINATE AID AND LIMIT CONGRESSIONAL FLEXIBILITY TO WORK WITHIN THE GENERAL PARAMETERS OF BUDGET FUNCTIONS AND SUBCOMMITTEE JURISDICTIONS. THE LAST TIME TREASURY ROLLED OVER CIAP AND DEVELOPMENT DEBT THE PRESS REPORTED "PUBLIC HOUSING INCREASES FEDERAL DECIFIT $1.5 BILLION." NEITHER TREASURY, HUD, NOR OMB BOTHERED TO EXPLAIN THE REALITY OF THIS PAPER TRANSFER. WE URGE YOU TO REVIEW IN DETAIL THIS RECOMMENDATION AND SEEK SAFEGUARDS TO AVOID POTENTIALLY DEVASTATING MISREPRESENTATION OF COSTS AND BENEFITS.

HUD PROPOSES NO NEW DEVELOPMENT BE FUNDED IN FY 1986 (14,500 UNIT INCREASE IN PROPOSED BUDGET IS REQUIRED FOR REPLACEMENT UNITS ONLY UNDER EXPIRING CONTRACTS AND PROGRAM TERMINATIONS). A SURVEY OF 12 LARGE PHAS REVEALED AVERAGE WAITING LISTS OF 29 MONTHS FOR FAMILIES (LONGER FOR LARGER FAMILIES) AND 25 MONTHS FOR THE ELDERLY. SMALL PHAS ARE EQUALLY PRESSURED. A PHA IN RURAL UPSTATE NEW YORK WITH 376 TOTAL UNITS HAS A WAITING LIST OF 104. AVERAGE TURNOVER IS UNDER TEN PERCENT ANNUALLY. THE CRUEL IRONY OF ELDERLY APPLICANTS NOT LIVING LONG ENOUGH TO GET APARTMENTS WHILE HUD SEEKS NO NEW

DEVELOPMENT IS UNAVOIDABLE. IF EVER THERE WAS EVIDENCE OF THE FAILURE OF THIS ADMINISTRATION'S "SAFETY NET" FOR LOW INCOME AMERICANS THIS IS IT.

IN RECENT YEARS THIS ADMINISTRATION ADMITTED THE NEED FOR MORE LOW INCOME HOUSING AND URGED CONGRESS TO FUND IN EXCESS OF 100,000 HOUSING VOUCHERS. DISCUSSION OF THE VIABILITY OF VOUCHERS ASIDE, HUD NOW DOES NOT EVEN WISH TO FUND ITS OWN VOUCHER PROGRAM. HUD'S PROPOSED BUDGET IS ALSO SOMEWHAT MISLEADING IN THAT ONE MIGHT BELIEVE HUD HAS, UNTIL NOW ADVOCATED DEVELOPMENT ACTIVITY. PIPELINE UNITS, WHICH THE DEPARTMENT ACTIVELY SEEKS TO CANCEL, WERE INITIALLY FUNDED EITHER PRIOR TO THIS ADMINISTRATION OR AGAINST ITS WISHES. HUD'S CALL FOR A TEMPORARY FREEZE IS SIMPLY A ROSE (A WEED?) BY ANOTHER NAME. HUD HAS LONG OPPOSED ANY NEW DEVELOPMENT FUNDING AND ONLY CONGRESS DESERVES THE CREDIT FOR SEEING TO THE CONTRARY.

PHA/DA URGES ADOPTION OF FUNDING LEVELS ADEQUATE TO FUND DEVELOPMENT OF NEW PUBLIC HOUSING AND ADDITIONAL SECTION 8 EXISTING UNITS. THERE CAN BE LITTLE DOUBT AS TO NEED. THE ONLY QUESTION IS OUR RESOLVE. PHA/DA WHOLEHEARTEDLY ENDORSES THE DEVELOPMENT AND SECTION 8 INCREMENTS AS FOUND IN HR 1. THESE ARE NOT PIE IN THE SKY TOTALS AND ARE IN FACT WELL BELOW FUNDING LEVELS OF A MERE FOUR YEARS AGO. IN VIEW OF THE NEED, THESE REQUESTS ARE MODEST INDEED.

HAVING NOW TOUCHED UPON HR 1 I WANT TO RELAY THIS ASSOCIATION'S SUPPORT FOR ITS CONTENTS. MUCH CRITICISM HAS BEEN LEVELED AT THIS LEGISLATION BECAUSE OF ITS RELATIVELY HIGH FUNDING LEVELS. THE FEDERAL DEFICIT AND THE NEED FOR BUDGET CONSTRAINT HAVE BEEN INVOKED IN ITS OPPOSITION. WE URGE THIS SUBCOMMITTEE TO NOTE HOWEVER, THAT OVER THE PAST FOUR YEARS HUD ASSISTED HOUSING PROGRAMS HAVE SUFFERED GREATLY DISPROPORTIONATE CUTS COMPARED TO OTHER FEDERAL

AGENCIES. THESE PROGRAMS HAVE ALREADY LOST THEIR POUNDS OF FLESH. THE PROPOSED HUD BUDGET IS PICKING AT OUR BARE BONES. THIS BILL'S TOTAL BUDGET AUTHORITY IS $20 BILLION, HALF HUD'S 1981 AUTHORITY. SINCE THAT TIME OUR NEED HAS INCREASED, NOT DECREASED. CONSUMER PRICES HAVE RISEN, NOT FALLEN. SOCIAL SERVICES HAVE DECREASED, NOT EVEN REMAINED THE SAME. IT IS INHUMANE TO CUT BASIC SHELTER FUNDS UNDER THESE CIRCUMSTANCES.

PHA/DA ESPECIALLY APPLAUDS HR1'S PROVISION FOR HUD REGULATORY REFORM AND URGES THIS SUBCOMMITTEE'S CONCURRENCE. IT IS ABOUT TIME HUD STOPPED TINKERING FOR TINKERING'S SAKE AND RETURNED TO ITS TRUE ROLE OF HELPING TO HOUSE THE POOR; TO ASSIST, NOT INTIMIDATE, LOCAL HOUSING PROVIDERS, THE PHA'S. THIS TESTIMONY HAS ALREADY ADDRESSED PFS, CIAP, DEVELOPMENT, THE MODERNIZATION SURVEY AND PHA/DA HAS LONG VOICED VERY STRONG OPPOSITION TO HUD'S INCOME RECAPTURE POLICY. WE AGREE ANY PUBLIC HOUSING LOST TO DEMOLITION OR DISPOSITION MUST BE REPLACED BY NO LESS THAN A EQUAL NUMBER OF NEW PUBLIC HOUSING UNITS. DEMOLITION AND DISPOSITION IS AN ISSUE BEST ADDRESSED BY LOCAL PHAS AND THEIR COMMUNITIES. IN NO CASE, HOWEVER, OUGHT HUD PROMOTE DEMOLITION/DISPOSITION AS A MEANS OF REDUCING THE NATION'S LOW INCOME HOUSING STOCK. OUR JOINT ROLES AND MANDATE ARE TO SUPPLY SHELTER, NOT DESTROY IT.

AT THIS POINT IT IS APPROPRIATE TO NOTE THAT HUD IS NOW PROMULGATING A MAJOR CHANGE IN THE SECTION 8 EXISTING PROGRAM. PHA'S WILL RECEIVE TEN PERCENT LESS IN ADMINISTRATIVE FEES TO MANAGE THE SECTION 8 PROGRAM. PHAS ARE RESPONSIBLE FOR INSPECTING UNITS, AWARDING AND AUDITING CONTRACTS, ASSISTING FAMILIES SEEKING NEW AND LARGER QUARTERS, DEAL WITH LANDLORD - TENANT PROBLEMS AND HANDLE

ALL HUD PAPERWORK. THERE IS NO EVIDENCE TO SUPPORT SUCH A REDUCTION WITHOUT ADVERSELY AFFECTING PROGRAM PERFORMANCE. HUD'S RATIONALE FOR A 10% REDUCTION IS THAT SUCH A REDUCTION IS CONSISTENT WITH OTHER ADMINISTRATION INITIATIVES AT DEFICIT REDUCTION. NO CLAIM IS BEING MADE RELATIVE TO PROGRAM NEEDS. FINALLY, HUD REFUSES TO INITIATE THIS CHANGE THROUGH ADMINISTRATIVE NOTICE AND COMMENT. THIS FEE REDUCTION WILL SEVERELY IMPACT HOUSING QUALITY STANDARDS, INTEGRATION AND ADMINISTRATIVE OVERSIGHT OF THE SECTION 8 PROGRAM, YET HUD SEEKS NO COMMENTS.

PHA/DA URGES CONGRESS TO ANNUL THIS EFFORT BY HUD AND REQUIRE HUD TO FOLLOW ACCEPTED LEGAL PROCEDURES BEFORE PROMULGATING MAJOR PROGRAM CHANGES.

TO RETURN TO HR 1, THAT BILL IMPROVES THE PERFORMANCE FUNDING SYSTEM MECHANISM TO MORE REALISTICALLY REFLECT LOCAL VARIABLES AND REWARD PHAS FOR EFFECTIVE MANAGEMENT. A REPLACEMENT RESERVE, WE AGREE, WOULD GO A LONG WAY TOWARDS ATTAINING PROGRAM STABILITY AND EFFICIENCY.

SECTION 116 OF HR1 PROVIDES FOR INDUSTRY CERTIFICATION OF PHA PERFORMANCE. PHA/DA STRONGLY SUPPORTS PEER SUPPORT AND ASSISTANCE. WHEN PHAS SEEK SUCH ADVICE, COLLEAGUES SHOULD SHARE EXPERIENCES AND EXPERTISE. IN NO WAY SHOULD THIS BE TURNED INTO A STICK WITH WHICH TO BEAT OR INTIMIDATE PHA'S. PHA'S SHOULD FEEL COMFORTABLE SEEKING BOTH CERTIFICATION AND PEER ASSISTANCE. IF A PHA VOLUNTARILY REQUESTS ACCREDITATION IN ORDER TO OPERATE UNDER SIMPLIFIED HUD PROCEDURES, FAILURE TO ATTAIN SUCH ACCREDITATION OUGHT NOT RESULT IN NEW PENALTIES. PEER ADVICE SHOULD BE PROVIDED TO

EVENTUALLY PASS SUCH MUSTER. NEW PENALTIES WOULD ONLY SCARE OFF PHA'S SEEKING ACCREDITATION AND PEER ADVICE.

THE ADMINISTRATION'S PROPOSED ELIMINATION OF THE FARMERS HOME ADMINISTRATION IS NOT A CONSOLIDATION BUT RATHER AN ELIMINATION OF CONSIDERABLE HOUSING ASSISTANCE. NOTE THE WISDOM OF CUTTING HUD STAFF BY TEN PERCENT, CLOSING A NUMBER OF FIELD OFFICES WHILE REQUIRING HUD TO ADOPT AND MAINTAIN A NATIONAL RURAL HOUSING PROGRAM. HUD IS UNFAMILIAR WITH FMHA PROGRAMS AND COMMUNITIES. FORCING RURAL AND URBAN HOUSERS TO COMPETE FOR FEWER FUNDS DENIGRATES BOTH, ASSISTS NEITHER. RURAL COMMUNITIES ARE CORRECT IN FEARING THIS PROPOSAL WILL LEAVE THEM UNATTENDED. CITIES SHOULD INDEED FEAR FOR THEIR ALREADY DRASTICALLY REDUCED FUNDING.

RURAL AMERICA CONTAINS MANY OF OUR VERY POOR AND WE URGE REJECTION OF ADMINISTRATION EFFORTS TO ELIMINATE THE FMHA. IF EVER THERE WAS A GROUP DESERVING OF WASHINGTON'S ATTENTION IT IS THE LONG FORGOTTEN RURAL POOR.

IN 1983 CONGRESS PASSED LEGISLATION REQUIRING THE ALLOWANCE OF PETS IN ASSISTED HOUSING FOR THE ELDERLY. NO ONE QUESTIONS THE GOOD INTENT BEHIND THAT LEGISLATION, WE DO QUESTION WHETHER ITS IMPACT WAS EXAMINED.

IF EVER THERE HAS BEEN AN ADMINISTRATIVE NIGHTMARE, THIS PETS LAW WILL JOIN ITS RANKS. THE PETS PROVISION FAILED TO TAKE INTO CONSIDERATION THE ULTIMATE SOCIAL AND ECONOMIC COSTS OF ITS IMPLEMENTATION. INSURANCE, VERMIN, HEALTH HAZARDS INCREASED MAINTENANCE COSTS AND LACK OF FACILITIES ARE ONLY SOME OF THE PROBLEMS NOW BEING FACED BY HOUSERS OF THE ELDERLY. WHAT DOES ONE DO WHEN MOST TENANTS DETEST PETS WHILE A SMALL MINORITY WISH TO HAVE

THEM? HUD IS NOT PROVIDING ADDITIONAL FUNDS FOR GROUNDS AND INTERNAL MAINTENANCE. NOT SURPRISINGLY, HUD RECEIVED 2,664 COMMENTS IN RESPONSE TO ITS 1984 REQUEST FOR RECOMMENDATIONS. 2,297 OPPOSED THE PETS LAW IN ITS ENTIRETY. PHA/DA STRONGLY URGES CONGRESS TO RETRACT THIS LEGISLATION AND PERMIT INTERESTED PARTIES TO PRESENT THEIR ARGUMENTS AND CONCERNS AND THEN ADOPT A WORKABLE LAW FOR ENSURING THE COMPANIONSHIP OF PUBLIC HOUSING'S ELDERLY. WHILE MANY AT FIRST THOUGHT THIS AN INNOCENT PROPOSAL, FACTS NOW BEAR OUT THE SERIOUSNESS, DIFFICULTY AND COST OF IMPLEMENTING THIS LAW.

FINALLY, PHA/DA IS NOW PREPARING A PAPER DETAILING PRECISE MECHANISMS FOR FURTHER IMPROVING MANY OF THE PROGRAMS DISCUSSED IN THIS TESTIMONY. THE PAPER WILL ALSO PROVIDE INNOVATIVE IDEAS FOR INEXPENSIVE HOUSING DEVELOPMENT. ALL MEMBERS OF THIS SUBCOMMITTEE WILL RECEIVE THIS STRATEGIES PAPER WITHIN THE COMING WEEKS. WE FEEL THE PAPER WILL PROVIDE MUCH FUEL FOR THOUGHT REGARDING EXISTING HOUSING ACTIVITIES AND NEW MEANS FOR ADDRESSING THE NATION'S FUTURE HOUSING NEEDS.

THE PUBLIC HOUSING AUTHORITIES DIRECTORS ASSOCIATION IS APPRECIATIVE OF THIS OPPORTUNITY TO PRESENT THESE VIEWS AND IS EAGER TO WORK WITH DEMOCRATIC AND REPUBLICAN ALIKE TO ADDRESS OUR MUTUAL CONCERNS.

THANK YOU.

Senator HECHT. Oh, my God, that's great. I guess there are no attorneys sitting down there. This wouldn't have happened if there were attorneys sitting down there, huh? [Laughter.]

Mr. LADEN. That's one of our problems.

Senator HECHT. OK. Ms. Sause.

Ms. SAUSE. Sause, like applesauce.

Senator HECHT. I'm sorry. Please continue.

STATEMENT OF HELEN L. SAUSE, PROJECT DIRECTOR, YERBA BUENA CENTER, SAN FRANCISCO REDEVELOPMENT AGENCY; VICE PRESIDENT, NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

Ms. SAUSE. Thank you. And, congratulations, Senator Hecht.

Senator HECHT. Thank you.

Ms. SAUSE. We appreciate your assumption of the chairmanship of this important subcommittee.

I am Helen Sause, project director, Yerba Buena Center, for the San Francisco Redevelopment Agency; and vice president of NAHRO, the National Association of Housing and Redevelopment Officials.

NAHRO is the 50-year-old association of professionals who administer low-income housing, rehabilitation, and community development programs in localities across the country. We represent over 5,000 individuals and 2,000 local agencies involved in carrying out these programs. We have had 50 years of experience with many different types of local programs, and this gives us a special and valuable perspective on local needs.

NAHRO'S POSITION ON ISSUES

We're here to share that perspective with the subcommittee and outline NAHRO's position on housing and community development issues.

In our view, the administration's budget together with the administration's legislative proposals constitute a repudiation of the Federal commitment for providing decent housing and a suitable living environment for every American.

The proposed budget for HUD for fiscal year 1986 would cut or eliminate most local development programs, curtail new activity in low-income housing assistance for 2 years, reduce spending for public housing operating assistance and modernization and further reduce HUD's staffing.

The legislative program for HUD would eliminate proven successful programs such as UDAG, the urban development action grant; section 312 loans; section 108 guaranteed loans; section 8 moderate rehabilitation. The legislative program proposes something we seriously question the wisdom of—adopting housing vouchers as a permanent program in a hasty fashion at the expense of the proven Section 8 Existing Housing Program.

We also believe that the Housing Development Action Grant Program should be extended, not eliminated, and be given a full opportunity to test its usefulness at a time of critical rental housing need.

Furthermore, NAHRO strongly opposes the implementation of the 60/40 percentage split between urban and rural areas. That 60/40 split would further reduce the amount of resources available for the urban areas that are in desperate need for these programs.

Likewise the proposed 50/50 percentage split between urban and rural areas in housing assistance programs is also one that we oppose. Dividing reduced funding among greater numbers of eligible recipients is not an answer to the Nation's housing and community development needs.

NAHRO has not had the opportunity to carefully analyze all the provisions of the proposed HUD legislation. We would like to be able to submit more detailed comments for your hearing record at a later date.

Senator HECHT. Absolutely. Any time. These hearings are going to continue, so any time you want.

[The following information was subsequently submitted for the record:]

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

ANALYSIS OF TITLES I, II, III(B) AND IV

OF THE

ADMINISTRATION'S BILL (S.667) - HOUSING AND COMMUNITY DEVELOPMENTS

AMENDMENTS OF 1985

A NAHRO STAFF ANALYSIS BASED ON NAHRO'S

EXTANT PRINCIPLES AND POLICY POSITIONS

MARCH, 1985

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

ANALYSIS OF TITLES I, II, III (B), AND IV

OF THE

ADMINISTRATION'S BILL (S.667) - HOUSING AND COMMUNITY DEVELOPMENT AMENDMENTS OF 1985.

MARCH, 1985

THREE ISSUES CUTTING ACROSS PROGRAM CATEGORIES - SUMMARY PAGE.

TITLE I - COMMUNITY AND NEIGHBORHOOD DEVELOPMENT

CDBG	Pages 1-6
Housing Assistance Plan	Page 2
Repealers	Pages 5
Effective Date	Page 6
Urban Homesteading	Page 6

TITLE II - Housing Assistance Programs

All Housing Assistance	Pages 6, 7, 10, 11
Public Housing	Pages 3, 7, 8
Section 202	Pages 8, 11
Section 8	Pages 8, 9
Vouchers	Page 9
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TITLE III - Program Amendments and Extensions
Part A - FHA (not analyzed)
Part B - Other Programs

HUD Research	Page 11
Legislative Review of HUD Regulations	Page 11

TITLE IV - Rental Rehab and Development Grants

Repeal of Development Grants	Page 12
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ANALYSIS OF 1985 ADMINISTRATION BILL:
NAHRO-3/85

THREE ISSUES CUTTING ACROSS PROGRAM CATEGORIES

ISSUE NO. 1 UNE-YEAR FUNDING SUBSTITUTED FOR MULTI-YEAR DOLLAR AUTHORIZATIONS

With minor exceptions (Urban Homesteading, HUD research) funding for major programs (CDBG, Housing Assistance, public housing modernization, and operating assistance) is changed to a one-year authorization/appropriation. Programs that previously had multi-year authorizations (such as CDBG - 3 years) would be authorized at a dollar amount of authorization/appropriation for one year, and "such sums as may be necessary" for the succeeding year. New housing assistance is authorized at a dollar level for one year, and "such sums as may be approved in appropriations acts" for the succeeding year. The Section 202 loan fund is authorized at what "may be approved in appropriations acts by direct borrowing from the Treasury." Public housing modernization and operating assistance is limited to funding "as appropriated" on an annual basis. These proposed changes have two negative impacts -- (1) they destroy program continuity, and the ability of recipients to plan beyond a one-year cycle and (2) they greatly diminish the role of the authorizing committees of the Congress in establishing program goals.

ISSUE NO. 2 - INCREASED TENANT RENTS AND REDUCED FEDERAL ASSISTANCE

In three instances (Section 212 - Rents and Public Housing Homeownership); Section 223(b) - (Sale of HUD-Owned Multi-Family Projects); and Section 224 (Use of Vouchers in the Rental Rehabilitation Program,), the Administration bill would sanction rent payments by tenants in excess of the statutory limit of 30 percent of income. This is also permissable in the housing voucher demonstration program. These changes further erode the effectiveness of the statutory limit, and reduce the federal commitment at the expense of low-income tenants.

ISSUE NO. 3 - DILUTION OF APPLICATION AND REPORTING REQUIREMENTS

In four instances, application or reporting requirements would be diluted: (Section 103(b) - Requirement for a "Community Development Plan" by Non-Entitlement Communities; Section 103(c) - the Housing Assistance Plan; Section 106(b) - Congressionally - Required Annual Report by HUD on Community Development; and Section 313 - Congressional Review of HUD Regulations. These changes by-pass the important objectives behind the original application and reporting requirements, reducing, if not foreclosing, the ability of the Department of HUD to analyze, evaluate, or report to the Congress on the programs it has authorized and appropriated funds to carry out. Further, it severely limits the ability to convey to taxpayers the uses to which public funds have been put.

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

ANALYSIS OF TITLES I, II, III (B), AND IV OF THE ADMINISTRATION BILL--S.667

HOUSING AND COMMUNITY DEVELOPMENT AMENDMENTS OF 1985

MARCH, 1985

SECTION AND CONTENT		EXPLANATION	NAHRO POSITION
TITLE I -	COMMUNITY AND NEIGHBORHOOD DEVELOPMENT		
Section 101(a) -	CDBG Authorizations		
	$3.1248 billion for fiscal year 1986, and such sums as may be necessary for FY 1987. Adjusts authorization for FY 1985 to reflect actual appropriation. (Section 103 of 1974 Housing and Community Development Act.)	- 10% cut in CDBG for FY 1986; open-ended in FY 1987. - Drops 3-year authorization.	NAHRO recommends $3.611 billion for FY 1986 (freeze level plus inflation of 4 percent). NAHRO recommends new 3-year authorizations for FY 1987, FY 1988, and FY 1989.
Section 101(b) -	Discretionary Fund - CDBG		
	Authorizes $60.5 million from CDBG authorization for FY 1986, and such sums as may be necessary for FY 1987. Adjusts set-asides for FY 1984 ($66.2 million) and FY 1985 ($60.5) to reflect actual set-asides. (Section 107 of 1974 HCD Act).	- FY 1986 set-aside would be 2%; this was percentage in FY 1983 Act.	A 2% set-aside under NAHRO - recommended CDBG funding above would be: FY 1986 - $72.2 million; and 2% of new funding authorizations for FY 1987, FY 1988, and FY 1989.
Section 102(a)	Revised Definition - Indian Tribe Eligibility		
	"Indian Tribe" must be recognized by Secretary of Interior, and requires that all or part of land be held in restricted or trust status by the United States. (Section 102(a)13) of 1974 HCD Act.)	- Former definition referred to "Indian Self-Determination Act" and "State and Local Fiscal Assistance Act." - Rationale for change is for "uniformity" and "historical relationship." - Would reduce number of eligible tribes; those not eligible should seek funding from local or state CDBG funds.	NAHRO: No position.

SECTION AND CONTENT		EXPLANATION	NAHRO POSITION
Section 102(b)	Definition of Low and Moderate Income in State CDBG Program. (Non-Metro Areas)		
	The Median Income for eligibility shall be based on median for the entire non-metro area of the state, instead of the area used for Section 8, i.e. the higher of 80 percent of median income on a county-by-county basis; or 80 percent of the nationwide median income of renters. (Section 102(a) 16(a) of 1974 HCD Act).	- Rationale for change is to ease fulfillment of low and moderate income requirement, i.e. easier to concentrate funding in relatively poorer non-metro counties.	NAHRO: No position.
Section 103(a)(b)	Statement of Activities in CDBG Application		
	(a) Deletes requirement for description of "grantees past use of funds". (Section 104(a)(1) of 1974 HCD Act.)	- Rationale is to avoid "duplication" with annual performance and evaluation report. - This requirement for all CDBG recipients was added by 1983 Act.	(a) NAHRO recommends: incorporation by reference of statement from annual performance report in application, to facilitate HUD application review.
	(b) Amends act to require development of a "Community Development Plan" only for entitlement communities. (Section 104(b)(4) of the 1974 HCD Act).	- Rationale for change is to exempt "states" from the requirement, since they are only administrative agents. - Also, states have to file a "final statement" which describes a state's "long term goals." - Would eliminate "unnecessary work."	(b) NAHRO opposes amendment: local communities receiving state funds should respond to requirement.
Section 103(c)1-6	Housing Assistance Plan Requirement		
	The HAP Requirement would be eliminated in favor of a provision which requires the grantee to "cooperate in the provision of housing opportunities suited to the needs of persons of low and moderate income residing or expected to reside in the community." (Section 104(c) of 1974 HCD Act).	- Rationale for elimination is that "realignment" of federal housing assistance away from expensive new construction and substantial rehab to vouchers no longer justifies cost in time and dollars of preparing a HAP. - The Department of HUD could "condition" CDBG grants on a community's systematic neglect of low-income housing.	NAHRO Recommends that HAP Be Continued, and that new construction/subtantial-rehab be continued and expanded. HAP is a stronger requirement than "certification." Also, it is an important link between housing and CD activity. HUD judgment should not be substituted for a locally-determined plan.

SECTION AND CONTENT		EXPLANATION	NAHRO POSITION
Section 103(c)(7)	Adjustment of FMR by up to 20%		
	Eliminates authority of HUD to adjust FMR if higher rent is necessary to implement local HAP. (Section 8(c)(1) of 1974 HCD Act).	- Rationale is that Secretary could continue to adjust FMR if circumstances warrant.	NAHRO opposes amendment. Adjustment should be retained in the statute as more workable, and related to local needs (HAP).
Section 103(c)(8)	Local Government Review of Public Housing Demolition or Disposition		
	Eliminates requirement for review to conform to HAP; amends to provide opportunity for chief executive officer to review and comment; restricts this opportunity to demolition or disposition involving at least 20 units or 10% of local public housing units. (Section 18(b)(1) of 1974 HCD Act).	- Rationale is that "HAP certification" is too broad. A restricted type of comment would relieve PHA administrative burden.	NAHRO opposes amendment and supports retention of housing assistance plan requirement.
Section 103(d)	Recovering Capital Costs of CDBG Public Improvements		
	Eliminates provision that CDBG grantees not attempt to recover costs of public improvements against properties owned by low and moderate income persons. (Section 104(b)(5) and Section 106(d)(5)(d) of 1974 HCD Act).	- Rationale is that requirement is overly cumbersome and limits flexibility; and a disincentive to make capital improvements in low-income neighborhoods. - Provision was added in 1983 Act.	NAHRO opposes amendment. Current provision should be retained.
Section 104(a)	Distribution of CDBG Funds		
	Changes the fund allocation from 70% for entitlement communities (Metro cities and urban counties) to 60% (Sections 106(a) and (d) of 1974 HCD Act.)	- Rationale is termination of Department of Agriculture's CD programs, and need to serve rural areas.	NAHRO recommends retention of current 70-30% split. Limited funds should not be spread among more recipients for more purposes.
Section 104(b)	Re-Allocated CDBG Funds		
	Provides that a reduction in a CDBG grant because of sanctions will not be made up because of reallocation of other funds available because of sanctions. (Section 106(c)(1) of 1974 HCD	- Rationale is to strengthen incentives to avoid sanctions.	NAHRO: No objection.

SECTION AND CONTENT		EXPLANATION	NAHRO POSITION
Section 104(c)(1)	Mandate States To Administer		
	Mandates states to administer CDBG state program beginning in FY 1986. (Section 106(d) of 1974 HCD Act.)	- Rationale is that only 3 states do not now choose to administer; cannot justify federal structure for administration.	NAHRO: No position.
Section 104(c)(2)	Uniform Administrative Procedures		
	Deletes provision for national associations to develop and recommend state procedures by November 30, 1984. (Section 104 of 1974 HCD Act.)	- Rationale is that recommendations have been received.	NAHRO: No objection.
Section 104(c)(3)	States Cannot Loan to Localities		
	Prohibits states from distributing CDBG funds in the form of loans. (Section 104 of 1974 HCD Act.)	- Rationale: Clarification of existing policy.	NAHRO supports amendment.
Section 104(e)(3)	Miscellaneous Amendments		
	(a) Provides that funds not allocated by January 1, 1986, shall be added to state grant for FY 1986, or returned to the Treasury.	- Rationale: Tracking by source year is required by appropriations acts.	NAHRO: No objection.
	(b) Provides that Governor need not sign certification. (Section 106(d)(5) of 1974 HCD Act.)	- Asking Governor to sign is administratively cumbersome.	
Section 105	Entitlement Transition		
	Amends 1974 Act to provide that communities which lose their classification as either a metro city or an urban county for FY 1986 or thereafter, would receive transition funding equal to full entitlement for first year, and one half of full funding for second year following loss of designation. (Section 102(a) of 1974 HCD Act.)	- Rationale: A more rational system than "grandfathering" which it replaces.	NAHRO: No objection to general transitional proposal, but the methodology by which entitlement status is determined needs to be carefully examined to insure equity for individual localities.

SECTION AND CONTENT		EXPLANATION	NAHRO POSITION
Section 106	Technical Amendments		
	(a) changes amount that states may deduct for administrative expenses from $102,000 to $100,000. (Section 106(d)(3)(A))	- Rationale: $102,000 is a typo error.	(a) NAHRO: No objection.
	(b) Deletes requirement for an annual report by HUD to the Congress. (Section 113 of 1974 HCD Act.)	- Rationale: 3-year report is sufficient.	(b) NAHRO: Present annual report by HUD should be continued, and with current detail. Public information on national program experience is essential.
Section 107	Repealers		
	(Effective October 1, 1985, or date of enactment, whichever is later.)		
	(a) Repeals Lump Sum Draw Down For Rehab. (Section 104(g) of the 1974 HCD Act.)	- Rationale: Requires federal government to borrow unnecessarily at high rates of interest; also, not necessary to achieve private leverage.	NAHRO opposes amendment; essential to local rehab program.
	(b) Repeals authority for HUD to make discretionary grants for for New Communities. (Section 107(b) of the 1974 HCD Act.)	- Rationale: New communities assistance is being phased out.	NAHRO: No objection.
	(c) Repeals Section 108 Loan Guarantees (Section 108 of the 1974 HCD Act.)	- Rationale: Reduce pressure that federal loan guarantees place on credit markets; also, low use - only 28 projects in FY 1984.	NAHRO opposes termination. This loan guarantee is the only vehicle to achieve longer-term CDBG activity.
	(d) Repeals UDAG (Sections 107(d), 119, and 121 of 1974 HCD Act.)	- Rationale: Reduce budget deficit. - Retains section in internal revenue code on bonds until December, 1988.	NAHRO opposes termination: See NAHRO issue and position papers on UDAG.
	(e) Repeals Section 312 Loans (Section 312 of 1964 Housing Act.)	- Rationale: Inefficient mechanism. Also covers rehab eligible under CDBG.	NAHRO opposes repeal of Section 312. This is still a useful mechanism for Housing Rehabilitation. Uses only loan repayments and balances.

SECTION AND CONTENT		EXPLANATION	NAHRO POSITION
Section 108	Urban Homesteading		
	(a) Authorizes $12 million for each of fiscal years, 1986 and 1987.	- Same as FY 1985	NAHRO supports authorization.
	(b) Authorizes states and localities to transfer properties for financial consideration to families with incomes over 80% of area median income. Funds received must be returned to U.S. Treasury. (Section 810 of 1974 HCD Act.)	- Rationale: Would preclude individuals realizing excessive gain; also, covers situations where there are no lower income applicants.	NAHRO supports amendment, but a portion of funds should be retained by the locality.
Section 109	Effective Date		
	All except section 107 of Title I would be effective with respect to funds for FY 1986 and thereafter.	- Section 107 (repealers) is effective on October 1, 1985, or date of enactment whichever is later.	NAHRO opposes repeal of programs in Section 107.
TITLE II -	HOUSING ASSISTANCE PROGRAMS		
Section 201	Authorizations		
	New budget authority is pegged at $499 million in FY 1986, and by such sums as may be approved in appropriations acts for FY 1987. CIAP is limited to $175 million in budget authority for emergency needs. (Section 5(c) of the 1937 U.S. Housing Act.)	- Rationale: A 2-year moratorium is proposed. - Funding for new activity, modernization, and operating assistance (Section 9 of 1937 Act) is limited to "as appropriated" on a year-to-year basis.	NAHRO opposes moratorium. Favors new budget authority at freeze level of $10.7 billion for FY 1986. See NAHRO position papers on Rental Housing and on Modernization. NAHRO opposes elimination of "authoriations" by Congress for assisted housing.

SECTION AND CONTENT		EXPLANATION	NAHRO POSITION
Section 202	Fraud and Abuse		
	Requires applicants or recipients to disclose social security number or employer identification number to HUD. Also provides access to wage information, unemployment compensation, etc. (no statutory citation.)	- Rationale: Necessary to enable HUD to undertake post-audit, quality control, and other investigative reviews. Assistance should go to "right people."	NAHRO supports amendments, in general designed to provide accurate eligibility data, but safeguards should be added in statute to insure privacy and prevent mis-use of data. Also, the statutory language would appear to give the department of HUD (not the local public housing agency) primary access to the information; Does this contradict local administration of the program?
Section 203	Definition of Disability		
	Amends current statutory definition to conform to changes in recent HHS legislation. (Section 3(b)(3) of 1937 U.S. Housing Act.)	- Rationale: Conformity with HHS definition; new definition slightly more expansive.	NAHRO: No objection.
Sections 204-210	Statutory Language not Available in March, 1985		
Section 211	Financing Public Housing Development and Modernizaton		
	Changes method method of financing development and modernization from debt amortization to one-time, up-front grants, as of October 1, 1986. Authorizes "forgiveness" of all past debt as of September 30, 1985, or enactment of 1985 bill, whichever is later. (Sections 4(a) and 5 of 1937 U.S. Housing Act.)	- Rationale: Would limit the growth of tax-exempt financing. Also, PHAs would save on administrative costs relating to servicing the loans.	NAHRO oposes elimination from the statute of authority for Secretary to make a long-term loan commitment (Section 4(a) and 5 of U.S. Housing Act of 1937). Section 211(9) of 1985 Administration bill would eliminate this authority as of October 1, 1986. - NAHRO questions whether up-front grants will be authorized at the same level as long-term amortization because of the budget impact. - NAHRO is preparing a position paper on grants vs. amortization as a financing method.

SECTION AND CONTENT		EXPLANATION	NAHRO POSITION
Section 212	Rents in Public Housing Home Ownership		
	Authorizes families to pay more than 30% of income for rent to maintain home purchase status. (Section 3(a) of the 1937 U.S. Housing Act.)	- Rationale: Flexibility to maintain program. Alternative to continuing "operating-subsidy" would continue families not really able to own homes.	NAHRO opposes amendment. It believes continuation of operating subsidy for a limited period of time may be necessary for some families to make transition to homeownership.
Section 213	PHA Receivership		
	Authorizes the HUD Secretary to apply to a federal or state court for appointment of a receiver if PHA is in substantial default; includes injunctive relief such as freezing PHA assets or other remedial actions. (Section 6 of U.S. 1937 Housing Act.)	- Rationale: Current remedies, e.g. conveyance of title or delivery of possession of a project to HUD are inadequate because they apply only at a project level.	NAHRO opposes amendment. Prudent exercise of current remedies provides an adequate response.
Sections 214-220	Statutory Language not Available as of March, 1985		
Section 221	Section 202 Loan Fund		
	Authorizes new loan authority as may be approved in Appropriations Acts by direct borrowing from the Treasury (Section 202(a)(4)(B)(i) of the 1959 Housing Act.)	- Eliminates "authorization" of new loan authority; Depends on appropriations process only. - Makes permanent direct borrowing from Treasury.	NAHRO supports "authorizations" by the Congress on a multi-year basis.
Section 222	Fair Market Rents		
	Freezes Fair Market Rents in FY 1986 at FY 1985 level. (Section 8(c)(1) of the 1937 U.S. Housing Act.)	- Rationale: Helps reduce federal deficit.	NAHRO opposes freeze. May deter landlords from participating in the program.

SECTION AND CONTENT		EXPLANATION	NAHRO POSITION
Section 223	Permanent Voucher Program; Repeal of Mod-Rehab		
	(a) Authorizes "vouchers" as a permanent program. (Section 8(o) of the 1937 U.S. Housing Act.)	- Rationale: Housing allowance experiments and Section 8 experience shows "vouchers" can work. By FY 1986, program will be "national" in scope. Additional research will be undertaken in FY 1985.	NAHRO does not favor expansion of "vouchers" pending an evaluation of the Voucher Demonstration.
	(b) Authorizes the Secretary to increase monthly rentals above 30% of income where necessary to assist in the sale of HUD owned multi-family projects. Previous section had authorized increased assistance for these projects under Mod Rehab. (Section 8(c)(1) of 1937 U.S. Housing Act.)	- Rationale: Residents may be willing to pay more rent for housing.	NAHRO supports retention of Mod Rehab and additional assistance provision, as more equitable to tenants.
	(c) Repeals - Mod Rehab Program (Section 8(e)(2) of 1937 U.S. Housing Act.)	- Rationale: Vouchers and Rental Rehab program are more efficient than Section 8 Existing and Mod Rehab.	NAHRO supports retention of Mod Rehab as an effective and workable program--particularly the 15-year term necessary for borrowing.
Section 224	Use of Vouchers in Rental Rehab Program		
	Authorizes use of vouchers for families who would be paying more than 30% of income for rent after rehabilitation (Section 8(o) of the 1937 U.S. Housing Act.)	- Rationale: Section 8 certificates can now be used in this way. Also, no certificates will be used for Rental Rehab program after FY 1984.	NAHRO: No objection to proposed use of vouchers in Rental Rehab.

SECTION AND CONTENT		EXPLANATION	NAHRO POSITION
Section 225	Allocation and Use of Housing Assistance		
	(a) Deletes requirements relating to local government review of assistance proposals based on the Housing Assistance Plan; local government would have same review process as localities not now having HAPS. Projects of 12 or fewer units need no review. Eliminates review exemption for state agencies. (Section 213 of 1974 HCD Act.)	- Rationale: HAP requirement is eliminated as ineffective.	NAHRO supports retention of HAP requirement; state agencies' projects should be subject to local review process. (See above section 103(c).)
	(b) On or after October 1, 1987, housing assistance shall be allocated on a 50-50 basis between metropolitan and non-metropolitan areas. (Section 213 (d)(1) of 1974 HCD Act.)	- Rationale: Farmers Home Administration Housing Assistance Programs would be terminated. 50-50 split approximates the distribution of HUD and FmHA units between 1980 and 1984.	NAHRO opposes 50-50 split. Limited funding should not spread more thinly among more localities for more purposes. "Fair Share" formula should not be eliminated.
	(d) Eliminates "HAP" and "AHOP" requirements in use of Secretary's reserve fund. (Section 213(d)(4)(I) of 1974 HCD Act.)	- Rationale: Secretary would apply reserve to all "special needs" under assistance programs.	NAHRO HAP and AHOP should be retained.
Section 226	Tenant Eligibility; Rent Supplements		
	Eliminates requirement that HUD issue a "certificate" of eligibility; owner would assume eligibility responsibility. Makes eligibility criteria consistent with Section 8 and public housing. (Section 101(e)(1) of the 1965 Housing and Urban Development Act.)	- Rationale: Removes HUD from intensive and costly burden of issuing certificates; provides uniformity.	NAHRO: No objection.

SECTION AND CONTENT		EXPLANATION	NAHRO POSITION
Section 227	Community Representation on Section 202 Governing Boards		
	Eliminates requirement that boards include "significant representation" from the local community.	- Rationale: Nationally based 202 sponsors are not structured for such representation.	NAHRO: No objection.
	Deletes requirement making governing board responsible for "project operation."	- Governing boards now fully responsible for all operations.	NAHRO: No objection.
Section 228(a)	Ordering of Eligibility Criteria		
	Changes placement of clause added in 1983 (paying 50 percent or more for rent) to be second item in priority status after "sub-standard housing." (Section 6(c)(4)(A) of 1937 Act.)	- Rationale: Make listing consistent.	NAHRO: No objection.
TITLE III -	PROGRAM AMENDMENTS AND EXTENSIONS		
	Part A - FHA (No Analysis)		
	Part B - Other Programs		
Section 331	HUD Research Authorization		
	A total of $18.9 million is proposed for FY 1986 and such sums as necessary in FY 1987. (Section 501 of 1970 Housing and Urban Development Act.)	- Rationale: Research priorities are listed.	NAHRO: Research authorization and priorities are not adequate. HUD's entire program reporting system, research priorities and funding need to be evaluated by the Congress.
Section 313	Legislative Review of HUD Regulations		
	Legislative review added in 1978 is repealed (Section 7(o) of the 1965 Department of Housing and Urban Development Act.)	- Rationale: Unconstitutional exercise of legislative power by a single congressional committee; also disruptive of HUD's regulatory processes. - Not used since 1982 in House; only once in Senate.	NAHRO opposes repeal. The Congress must insure that its legislative intent is carried out. the process of review (timing, etc.) can be improved, if necessary, by mutual agreement.

SECTION AND CONTENT		EXPLANATION	NAHRO POSITION
TITLE IV -	RENTAL REHAB AND DEVELOPMENT GRANTS		
Section 401			
(g) and conforming changes in (a)(b)(d)(e) and (h) - (k).	Repeals Housing Development Grants as of October 1, 1985 or enactment, whichever is later.	- Rationale: Helps federal debt reduction.	NAHRO opposes elimination of HoDAGs. See NAHRO issue and position papers on "Rental Housing".
(a)-(m)	Rental Rehab Amendments		
(b)	Permits states to use rehab grants in rural areas.	- Rationale: Compensate for discontinuation of Farmers' Home housing preservation program.	NAHRO opposes spreading of limited funds to more localities. FmHA preservation program should be funded.
(c)	Authorizes use of rural data in distribution formula.	- Rationale: Compensate for discontinuation of Farmers' Home Housing Preservation program.	NAHRO opposes spreading of limited funds to more localities.
(b)	Changes "structure" references to "project". (Section 17 of 1937 U.S. Housing Act.)	- Rationale: Consistency.	NAHRO: No objection.
Section 402	Environmental Certification		
(a)	Authorizes states to approve local environmental certifications, where state administers funds. (Section 104 (h)(4) of the 1974 Housing and CD Act.)	- Rationale: Consistent with CDBG process.	NAHRO: No objection.
(b)-(d)	Conforming Changes and Deletion		
	Would make conforming changes to 1974 Act.	--	NAHRO: No objection.
	Delete requirement in 1974 Act regarding certifications of civil rights. (Section 107 (d) of 1974 HCD Act.)	[No explanation.]	NAHRO: No position - reason for deletion is not clear.
Section 403	Conforming changes to National Housing Act. (Sections 223(b) (5) and 224(h) of the National Housing Act.)	- Changes relating to elimination of Housing Development Grants.	NAHRO opposes elimination of Housing Development Grants (See Section 401 above.)

Ms. Sause. It is clear to us from what we have seen that if these budget and legislative proposals are accepted by Congress, there would be little left of HUD or its programs.

Mr. Chairman, the Public Housing Program provides homes for some 1.3 million households and has housed many millions of others over its 48-year history.

While some public housing has had problems, most housing authorities, like Las Vegas, are success stories, where well-designed and well-managed units continue to prove that public housing is the cheapest, most reliable, and most flexible means of decently housing low- and moderate-income persons.

During 1984 and 1985, HUD has attempted to reduce funding for public housing operations by making administrative and regulatory changes in regard to vacancy rules, income recapture, and other modifications to the performance funding system.

NAHRO calls on Congress to resist these measures. Congress should reject the reduced and inadequate level of funding for fiscal year 1986 proposed by the administration. NAHRO believes that using the current performance spending system with a fiscal year 1986 appropriation of $1.4 billion is the best approach to funding public housing operations.

However, NAHRO believes there are some changes that can be made in the performance funding system to make it more effective and efficient, to encourage good management, and to remove disincentives. The changes, which represent a balanced and total approach to the performance funding system, are outlined more fully in my written statement.

PUBLIC HOUSING MODERNIZATION

Another area of concern for NAHRO is that of the public housing modernization. Public housing agencies feel strongly that the Comprehensive Improvement Assistance Program [CIAP], is an effective program both for bringing substantial numbers of public housing units back into use and for increasing the useful life, efficiency, and cost effectiveness, to currently occupied units.

For fiscal year 1986, the administration is proposing to fund only emergency modernization. NAHRO believes CIAP should be funded at a level of $1.8 billion for fiscal year 1986. This level recognizes unmet needs and rejects a moratorium on comprehensive modernization, which would permit the cycle deterioration of the public housing stock to accelerate. NAHRO also calls for development and funding of the replacement reserve system based on capital needs.

In the area of assisted housing production the administration's proposal to institute a 2-year moratorium on any new assisted housing activity completely ignores documented needs on new rental housing construction and substantial rehabilitation for lower income households.

In this regard, let me comment briefly on legislative proposals aimed at making public housing ownership available to public housing tenants. NAHRO supports the concept of affordable home ownership opportunities for low-income persons. We also believe there's a growing need for rental housing for low-income families. Therefore, it is our position that public housing units should not be

removed from the rental housing stock unless they are replaced on a 1 to 1 basis. Further, we believe any home ownership program should include a reserve fund or other mechanism for the payment of maintenance expenses.

Mr. Chairman, the administration is proposing a moratorium, not just on incremental units under the Section 8 Existing Housing Program, but it's shutting down the Voucher Program as well. This is to be done notwithstanding the acknowledged success of the Section 8 Existing Housing Program and the increasingly ominous housing shortage among low-income persons including low-income wage earners. NAHRO opposes any moratorium on incremental section 8 existing certificates and supports 75,000 incremental certificates for the fiscal year 1986 year. This level continues a proven and successful program to help meet the growing needs for housing assistance.

The Community Development Block Grant Program provides funds to cities, counties, towns, and States, for the primary purpose of developing viable urban communities with the principal benefit to low- and moderate-income persons. Despite the success and the popularity of the program, the administration is proposing a 10-percent cut in funding for fiscal year 1986. The administration also proposes to increase small cities funding from 30 to 40 percent of the available block grant funds, thereby reducing the amount available to entitlement cities. In addition, the administration is again proposing to eliminate the Section 108 Loan Guaranteed Program.

NAHRO supports retention of the Section 108 Loan Guaranteed Program at the level of $225 million and opposes any effort to reduce the funding level of the Block Grant Program. We support a funding level of the CDBG Program at $3.6 billion.

Senator HECHT. Can you summarize, please?

Ms. SAUSE. Certainly.

The UDAG Program is one of the success stories in Congress. It leverages $6 in private investment for every $1 of UDAG money invested. We would also urge that this program be continued.

Many of us have worked very hard in the local sector to meet the national priority of providing housing and community development programs for our localities.

We can only hope that Congress will respond to the administration's proposals by rejecting the President's totally destructive proposals for housing and community development.

We hope that you will vote to sustain the Federal commitment and the resources that allow us to work together at all levels of government to build a better America. We also understand the need to reduce the Federal deficit, but we believe that these programs have already given at the office.

In the last 4 years they have sustained major cuts. Therefore, we urge that you continue funding at a level that permits us to carry on viable programs.

Thank you.

[The complete prepared statement follows:]

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STATEMENT OF

HELEN L. SAUSE

I. INTRODUCTION

I am Helen L. Sause, Project Director, Yerba Buena Center, San Francisco Redevelopment Agency, and Vice President of the National Association of Housing and Redevelopment Officials. As you know Mr. Chairman, NAHRO is a 50 year old association of professionals who administer low-income housing, rehabilitation, and community development programs in localities across the country. We represent over 5000 individuals and 2000 local agencies involved in carrying out these programs. We appreciate this opportunity to comment on the important housing and community development issues facing this nation and to outline NAHRO's positions on them.

During the past 50 years, Congress clearly articulated a national policy to create and sustain vital urban communities and increase the supply and affordability of housing for lower income, as well as moderate income, Americans. It has backed up this policy with resources.

Now the President proposes a budget that would kill any hope for hundreds of thousands of low and moderate income Americans for decent, affordable housing and foreclose any prospect of undertaking desperately needed revitalization in hundreds of American cities and towns. It would insure the continuing deterioration of neighborhoods that could be saved and turned into prospering communities. That budget repudiates the 50-year-old federal commitment to decent housing and a suitable living environment for every American.

Our studies show that we need to build at least 350,000 units of affordable rental housing for low and moderate income households every year between now and the end of this century to meet a growing demand.

The number of homeless persons is reaching epidemic proportions. In almost every community housing needs of the old, the disabled, single parent families and the poor are going unmet. Now even intact working families are crowding into emergency housing and homeless shelters. A budget that provides no new assisted housing in any form for the next two years is unacceptable. At a time when the waiting lists for assisted housing in virtually every American city are long and growing longer, that budget is indefensible.

No argument was made in the President's budget message that these programs aren't doing the jobs they were intended to do. This budget doesn't recommend a more efficient or cost effective way to meet the nation's most critical housing and community development needs. It simply turns its back and walks away from the federal responsibility for meeting those needs.

The fact is that the cuts proposed by the President have little or nothing to do with reducing federal deficits or balancing the budget. This Administration is ideologically opposed to these programs and is using the deficit issue as an excuse to terminate or cripple them.

II. THE ADMINISTRATION'S BUDGET AND LEGISLATIVE PROGRAM

The Administration has selected 1985 as the year to attempt a "knock-out blow" to the 50-year old federal commitment to national housing and community development needs. The evidence for this assertion is the proposed budget for HUD for Fiscal Year 1986 and the Administration's legislative program.

Those prescriptions, if adoptd by Congress, would among other things:

- -- eliminate Urban Development Action Grants;
- -- reduce by 10% funding for Community Development Block Grants, repeal Section 108 loan guarantees, eliminate the lump sum draw down and reduce the amount of funds allocated to large cities;

-- eliminate The Section 8 Moderate Rehabilitation Program and funding for new programs authorized in the 1983 Housing and Urban-Rural Recovery Act, including housing development grants (HODAGs) which would be repealed, and the Administration-sponsored rental rehabilitation grants program;

-- halt any new activity in low-income housing assistance for two years;

-- eliminate the Section 235 Homeownership Program

-- reduce operating assistance and modernization funding for existing public housing

-- change the system of long-term funding for public and Indian housing development and modernization;

-- increase the premiums for FHA loans and guarantee fees for the mortage-backed securities program of the Government National Mortgage Association;

-- Force HUD to divide its already limited housing assistance budget in order to provide housing in rural areas previously served by FmHA whose housing program are to be terminated; and

-- further reduce HUD staff.

NAHRO has grave restrictions about many of the provisions of the "Housing and Community Development Amendments of 1985," as proposed by the Administration. We strongly object to the elimination of proven, successful programs such as Urban Development Action Grants (UDAG), Section 312 Loans, Section 108 Guaranteed Loans, and Section 8 Moderate Rehabilitation. At the same time, we seriously question the wisdom of adopting Housing Vouchers as a permanent programs in a hasty fashion, at the expense of the proven Section 8 Existing Housing Program. We also believe that the Housing Development Action

Grant (HoDAG) Program should be extended, not eliminated, and be given a full opportunity to test its usefulness in a time of critical rental housing needs.

Mr. Chairman, this Association would like to point out that the Administration's 1985 proposed legislation would further erode the role of the Congressional Authorizing Committees, which are most knowledgeable about housing and community development programs. In many instances, the proposed legislation would provide "open-ended" authorizations, leaving it to the appropriations process to set funding levels on a year-to-year basis. Specific dollar amounts for CDBG would be eliminated after Fiscal Year 1986; the traditional three year authorizations would be terminated. Housing assistance funds and public housing operating subsidies would be handled in a similar fashion. NAHRO opposes these changes. There is need for multi-year authorization's for program continuity, as well as for a meaningful role by the authorizing committees.

The proposed legislation would also change some long-standing mechanisms -- such as the financing of public housing development and modernization, and the local housing assistance plan. The existing mechanisms were adopted by the Congress with specific purposes; they should not be discarded without a most careful consideration of their original purposes, and a determination as to whether the new mechanisms will meet these purposes.

Furthermore, NAHRO strongly opposes the implementation of a 60-40 percentage split between urban and rural areas in the CDBG Program; and a 50-50 percentage split between these areas in housing assistance programs. Dividing reduced funding among greater numbers of eligible recipients is no answer to the nation's housing and community development needs.

Of special concern to NAHRO is a provision (Section 106(a)) which would change the congressional requirement for an annual report on HUD's CDBG, UDAG and other community development programs. This would be changed to a 3-year

report, without the current detail now provided. NAHRO's believes that the current Consolidated Annual Report on Community Development is an outstanding example of good useful reporting, and should not be tampered with. Further, we urge the Congress to mandate a similar consolidated annual report for housing assistance programs.

NAHRO has not had an opportunity to carefully analyze all of the provisions in the proposed legislation. We request that our more detailed comments be included in your hearing record at a later date.

Pending this more extensive analysis, we would make one basic observation at this point: NAHRO believes most of the provisions in the new proposal are more "destructive" than "constructive. They are apparently designed to further dismantle federal participation in housing and community development.

If these budget and legislative proposals are accepted by Congress there would be little of HUD or its programs left to salvage.

III. HUD PROGRAMS

PUBLIC HOUSING OPERATIONS AND FINANCE

At this point I would like to comment on some of the programs of the Department of Housing and Urban Development and state NAHRO's position on them. Perhaps I can offer some balance to an Adminstration viewpoint that assumes failure and counsels retreat.

First, let me comment on the public housing program. The program provides homes for some 1.3 million households today and has housed millions of others over its 48 year history.

While some public housing has been beset with problems, most housing authorities are success stories where well designed and well managed units continue to prove that public housing can be the cheapest, most reliable and most flexible means of decently housing low and moderate income persons.

As you know, Mr. Chairman, the Performance Funding System (PFS) utilizes federal appropriations to fund the gap between the cost of PHA operations and income received (mostly from tenants). The PFS has been funded at 100% during FY 1982, 1983 and 1984. When fully funded, the PFS adequately covers the cost of operations for most PHAs. There is general support for the system among PHAs.

However, during 1984 and 1985, HUD has attempted to reduce funding for operations by making administrative and regulatory changes in regard to vacancy rules, income recapture and other modifications to the performance funding system. NAHRO calls upon the Congress to resist these measures.

Congress should reject the reduced and inadequate level of funding for FY 1986 proposed by the Administration. NAHRO believes that the PFS with an FY 1986 appropriation of $1.423 billion is the best approach to funding public housing operations. However, NAHRO believes there are some changes which can be made to make the PFS more effective and efficient, encourage good management and remove disincentives. The changes, which represent a balanced and total approach to the PFS, are as follows:

- A formal expense adjustment process should be established.
- Occupancy rates should be utilized as an incentive to encourage good management by fully funding a 95% occupancy rate and sharing income generated as a result of higher occupancy rates.

- "Other income" should be eliminated from the calculation of operating subsidies to encourage PHAs to be better managers and permit them to benefit from such additional income.
- PHAs should adopt a performance standards system which can be the basis for reduced oversight and regulation by HUD for those which achieve performance goals. NAHRO is working on its own performance management proposal and when the report is completed later this month we would like to submit it for the record of this hearing.
- A minimum operating reserve (equal to 20% of the annual operating budget) should be established to PHAs receiving funding adjustments to maintain this level.

Additionally NAHRO recommends that the 10% elderly deduction be reinstated and that there be a 10% earned income deduction for working families. Also, we believe that a minimum rent should be set for families on 100% AFDC which should be the portion designated by flat grant states for housing and the shelter allowance in "as paid" states.

NAHRO supports the establishment of a formal review process for allowable expense levels and a "ceiling" or maximum rent which does not exceed the FMR for the area and which would available to tenants for a limited period of time. We also call for the end of the present 5 and 25% limits on rentals to families above 50% of the median income.

On a related subject, NAHRO opposes the Administration's attempt to freeze wages by adjusting the inflation factor of the allowable expense level under PFS. We question the Department's authority to impose such a freeze.

PUBLIC HOUSING MODERNIZATION

Another area of concern for NAHRO is that of public housing modernization and, in particular, the Comprehensive Improvement Assistance Program (CIAP). Public housing agencies feel strongly that CIAP is an effective program both for bringing substantial numbers of public housing units back into use, and for increasing the useful life, efficiency, and cost effectiveness of currently occupied units. It has become an essential tool in efforts to conserve the $75 billion national investment in the public housing inventory.

For FY'86 the Administration is proposing to fund only $175 million in emergency modernization.

NAHRO believes CIAP should be funded at a level of $1.794 billion for FY86. This level recognizes unmet needs. It rejects a moratorium on comprehensive modernization which would permit the cycle of deterioration of the public housing inventory to accelerate. NAHRO also calls for development and funding of a replacement reserve system based on capital needs.

ASSISTED HOUSING PRODUCTION

As suggested earlier, the Administration's proposal to institute a two year moratorium on any new assisted housing activity completely ignores the documented need for new rental housing construction and substantial rehabilitation for lower income households.

Over 75 percent of all renters in 1981 had incomes under $20,000 and 43 percent had incomes under $10,000. They face a declining stock of units they can afford, many of which require rehabilitation. The ultimate result is a rising tide of "homelessness" and families seeking emergency shelter.

Ironically, it is these households that other federally assisted housing construction and rehabilitation programs were designed to serve; and it is these programs that are being halted at the very time they are needed most. The rate of newly-authorized assisted housing, which was at a level of over 200,000 units in 1981, would be brought to a complete stop if the Administration's program is accepted.

A level of 350,000 newly constructed or substantially-rehabilitated units is necessary for each year until the end of the decade, just to address the elimination of currently-deficient or overcrowded units in the national housing supply. All of the existing federally assisted production programs--Public Housing, Section 202 and HODAG-- are required for this effort.

In this regard, let me comment briefly on legislative proposals aimed at making public housing homeownership available to public housing tenants. Bills to accomplish this purpose have been introduced by Representative Kemp in the House and by Senator Symms in the Senate. NAHRO supports the concept of affordable homeownership opportunities for low income persons. We also believe there is a growing need for rental housing for low income families. Therefore, it is our position that public housing units should not be removed from the rental housing stock unless they are replaced on a one for one basis. Furthermore, we believe any homeownership program such as is proposed should include a reserve fund or other mechanism for the payment of maintenance expenses, as well as supportive services aimed at assuring renumerative employment for low income homeowners.

THE SECTION 8 EXISTING PROGRAM

The Administration, as you know, is proposing a moratorium not just on incremental units under the Section 8 Existing program, but it is shutting down its favored voucher program as well. This to be done notwithstanding the

acknowledged success of the Section 8 Existing Program and the increasingly ominous housing shortage among low income persons including low income wage earners.

During FY 1984 and FY 1985 there were 73,500 housing vouchers funded. While the voucher program was funded by the Congress as a demonstration program it has yet to be implemented and evaluated. Now the Administration seeks to have it made a permanent program. By contrast, the Section 8 existing program has already proved to be a successful means of providing assistance to low income persons seeking standard rental housing in the private market. The demand for housing assistance by low income persons is growing and the pressure to provide assistance through Section 8 Certificates has increased due to the lack of production of low income rental units. A NAHRO survey conducted during the summer of 1984 indicates there is an average of eleven applicants for each certificate issued.

In the Section 8 Program local housing authorities perform important functions, including informing eligible families of the availability of housing assistance, encouraging owners to make their units available for lease by eligible families, setting the maximum amount of housing assistance payments that can be used for family-paid utilities, receiving applications from families and determining their eligibility for assistance, selecting families for certificates of family participation, inspecting units prior to occupancy and periodically thereafter to assure that they are maintained in decent, safe and sanitary condition, approving leases, making housing assistance payments to owners, reexamining family income and composition, and redetermining the amount of rental contribution required from the family. For these services the PHA receives an Administrative Fee, which NAHRO feels should not be arbitrarily reduced by 10% as proposed by the Administration.

Additionally, NAHRO is opposed to the Administration's further attempts to cripple the program by freezing the FMR. Experience two years ago demonstrated

that no annual increase in the FMR severly restrained certificate holders from securing affordable housing and discouraged landlord participation.

NAHRO opposes any moratorium on incremental Section 8 Existing certificates and supports 75,395 incremental certificates for FY 1986. This level continues a proven successful program to help meet the growing need for housing assistance.

THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

As you know, Mr. Chairman, the Community Development Block Grant program provides funds to cities, counties, towns, and states and was authorized in 1974 for the primary purpose of developing viable urban communities with the principal benefit to low- and moderate income persons.

Despite the success and popularity of the Community Development Block Grant program, the Administration is proposing a 10% cut in funding for FY86 with the possibility of phasing the program out completely over a longer period of time. The Administration also proposes to increase Small Cities funding from 30 percent to 40 percent of the available CDBG funds, thereby reducing the amount available to individual entitlement cities. In addition, the Administration is again proposing to eliminate the Section 108 Loan Guarantee program. A supplement to the CDBG program which has proven to be an asset to many communities. The 108 program authorizes HUD to guarantee loan obligations of communities to finance large scale projects that would otherwise not be undertaken. Communities are authorized to use their CDBG funds to repay the loan, usually within six years. Future grants are pledged as security.

NAHRO supports retention of the Section 108 Loan Guarantee program at a level of $225 million and urges HUD to encourage more widespread use of the program.

NAHRO opposes any effort or reduce the funding level for the CDBG program, and supports a funding level of $3.611 billion, which is the fiscal year 1985 dollar level plus a 4 percent inflation adjustment.

THE URBAN DEVELOPMENT ACTION GRANT PROGRAM

Lastly, Mr. Chairman, NAHRO would like to comment on the Urban Development Action Grant program. Here is a program the Reagan Administration ought to like and continue to fund.

As of November 19, 1984, after almost seven years of program operation, UDAG has assisted 2,410 development projects in 1,084 cities. Total investment of private, UDAG and other public dollars in these projects will exceed $26 billion.

Approved UDAGs contain almost 95,000 housing units, with an even division between construction of new housing units and the rehabilitation of existing units. Thirty-nine percent of the units are reserved for lower income families having incomes below 80 percent of the median.

UDAG projects approved to date are expected to generate a total of 479,178 new permanent jobs, provide over 467,000 construction jobs and retain over 120,000 jobs that otherwise would be lost to residents of distressed cities.

Approved projects are expected to attract a total of $20.6 billion of private investment or $5.60 of private investment for each dollar of UDAG funding. They are expected to produce a total of $521 million of additional property taxes and other local taxes annually for cities having approved UDAGs -- or $0.10 of annual local tax revenue for each UDAG dollar.

The Administration proposes the termination of the Urban Development Action Grant Program. This ignores the critical contribution of UDAG assisted developments to the revitalization of the communities in which they are located. NAHRO strongly supports continuation of the program at a level of $458 million, which is the fiscal year 1985 dollar level plus an inflation adjustment of 4%.

To address the issue of geographic imbalance of funding, NAHRO supports a modification to the selection system so that 2/3 of available funds are awarded on the basis of the current system and 1/3 of the monies are awarded solely on the basis of project characteristics. This change will maintain program integrity but broaden the base for funding among eligible communities.

NAHRO FUNDING RECOMMENDATIONS FOR FISCAL YEAR 1985

Mr. Chairman, attached to my written statement is a table setting for the NAHRO's funding recommendations for HUD program's in fiscal year 1986. In addition to recommending 100,000 incremental units of assisted housing, we are asking the Congress to fund most HUD programs at the fiscal year 1985 level plus 4% for an inflation adjustment.

We are not happy with those particular recommendations. They are too few and too little. They do not come close to meeting the need, and they do not move us very far toward our goal of a decent home and a suitable living environment for every American family. They are a product of compromise,Mr. Chairman -- compromise between what ought to be done and what we can do over the objections of the President. What we are saying is that if there is to be no real growth across the board in federal programs, then we accept no real growth for housing and community development.

Accepting the President's proposals will lead to growing social problems that will cost all of us dearly in the future. The cost of dealing with the consequences of increasing numbers of homeless citizens and others forced to

live in overcrowded and substandard housing will ultimately be far greater than the cost of providing them with decent shelter in federally assisted housing. The cost of allowing neighborhoods to turn into slums will ultimately be far greater than the cost of adequately funding Urban Development Action Grants and Community Development Block Grants.

Those of us at the local level have worked very hard to meet the demands on our agencies in the face of reduced funding over the past four years. We have reduced staff. We have improved management to achieve cost savings. We have developed innovative approaches to stretch our development dollars and attract private investment. We have even been forced to postpone needed maintenance on public housing stock, which represents a public asset worth $75 billion, in order to make ends meet.

Mr. Chairman, low income people in need of housing, and deteriorating neighborhoods in need of revitalization, often have trouble making their voices heard and their needs known. NAHRO believes that Americans still have a social conscience. We believe that when Americans know the facts, when they understand the need, when they recognize that the entire community benefits from these programs, they will exercise that social conscience.

We can only hope that Congress will respond by rejecting the President's totally inadequate proposals for housing and community development, and by voting to sustain the federal commitment and the resources that allow us to work together at all levels of government to build a better America.

Thank you.

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

FUNDING RECOMMENDATIONS FOR HUD PROGRAMS FISCAL YEAR 1986

- CDBG -- $3.611 billion
- UDAG -- $458 million
- Section 108 Loans -- $225 million
- Section 312 Loans -- Loan repayments and other income
- Rental Rehabilitation Grants -- $156 million
- Urban Homesteading -- $12.4 million
- Public Housing Modernization -- $1.794 billion
- Public Housing Operating Assistance -- $1.423 billion
- Housing Development Grants -- $120 million
- Section 235 Home Ownership -- $136 million
- Section 202 Loan Fund -- $631 million (12,000 units)
- Policy Development and Research -- $17.6 million
- Welfare Housing Demonstration -- $10 million (authorized in 1983 act)
- Congregate Housing Services -- $10 million (required to renew expiring contracts)
- Housing Counseling -- $3.6 million
- Assisted housing -- $9.0 billion for 100,000 incremental units as follows:

Public Housing -- Conventional	5,000 units
Public Housing -- Indian	2,000 units
Section 202/8	12,000 units
Section 8 Moderate Rehabilitation	5,000 units
Section 8 Existing	75,395 certificates

Serving the Nation's Housing and Community Development Needs

March 25, 1985

Appendix to NAHRO Testimony

The Honorable Chic Hecht
Chairman
Subcommittee on Housing and
Urban Affairs
Senate Dirksen Office Building
Room 522
Washington, D.C. 20510

Dear Mr. Chairman:

The National Association of Housing and Redevelopment Officials (NAHRO) is gravely concerned that the Congregate Housing Program which has been such a success in its demonstration phase, will be allowed to expire without consideration of future uses.

In brief, many of the HUD contracts for the 33 local Public Housing Agencies and 30 Section 202 non-profit sponsors participating in the demonstration will expire during FY 1986. At the same time, the Department of HUD has not yet released the final evaluation report on the demonstration, and it may not be released in time in 1985 to plan effectively for a future congregate housing services effort.

Our immediate concern is that funding be provided to enable agencies whose contracts will be expiring to continue services to frail elderly and handicapped persons they are serving, until the Congress has the opportunity to assess HUD's evaluation report and consider a future course.

We hope that you will request the HUD Appropriations Committee to fund the Congregate Housing Services Program at a level of $10 million for fiscal year 1986.

I am attaching to this letter a statement by Elaine Anderson, Administrator of the Congregate Housing Services Program of the Public Housing Agency of St. Paul Minnesota. This statement documents the value and cost-effectiveness of the program.

We request that this letter and attachment be included in your hearing record on 1985 housing legislation as an appendix to NAHRO testimony.

Sincerely yours,

Robert W. Maffin
Executive Director

National Association of Housing and Redevelopment Officials
2600 Virginia Avenue Northwest Suite 404 Washington D.C. 20037 (202) 333-2020

The Congregate Housing Services Demonstration-- a Proven Success

By Elaine Anderson
Administrator
Congregate Housing Services Program
Public Housing Agency
St. Paul, Minnesota

John McIntyre, 74, suffers from severe emphysema and cancer of the esophagus, which is in temporary remission. He had been in a nursing home in St. Paul for over a year when his name finally came up on the waiting list at the St. Paul Public Housing Agency's Congregate Housing Service Program (CHSP). The Professional Assessment Committee of the CHSP reviewed John's condition and approved his admission to the program. A few weeks later, he moved into his apartment where he has been able to enjoy the luxury of having control over his own life and his own environment. John, who uses oxygen on a daily basis, doesn't have the hope that his health will improve. Yet with the help of the services provided through the CHSP, he is contented with his peaceful life. Prior to his health crisis, he was a very active man. Today, he maintains the pride of his independence. His days are spend quietly in his apartment with visits from his homemaker, family members and an old friend, along with twice - daily jaunts in his wheel chair down to the community room for meals. His needs are being met with a minimum of burden to others.

John is one of 2,000 other elderly, frail or disabled participants in 63 different CHSPs across the United States. They all confront the need for help and the threat of nursing home placement on a regular basis. The CHSP, authorized by Title IV of the 1978 Housing and Community Development Act, allowed HUD to grant 3-5 year contracts to 33 Public Housing Authorities and 30 housing sponsors for provision of meals and supportive services to elderly and handicapped residents who are at risk of institutionalization, or who are undergoing long-term recuperation from illness.

Services provided in the CHSPs across the United States vary, depending upon participant needs and available services in communities. The common thread among all CHSPs is two meals per day, seven days per week, at least one of which provided in a congregate setting. In addition to nutrition, which is the backbone of the program -- CHSPs offer services such as housekeeping, personal care assistance, case management, counseling, transportation, escort services and shopping services. The CHSP framework enables additional social services to be funded through outside sources. The high concentration of elderly needing supportive assistance in CHSPs creates an opportunity for other community agencies to implement effective and innovative services. In St. Paul, for instance, the county nursing agency started a weekly nurses' clinic in the Public Housing Ravoux Hi-Rise where the CHSP is located. Another agency operates an adult daycare program three days per week for residents of Ravoux.

The purpose of the CHSP is to deliver services that still allow the frail elderly and handicapped to remain in their own homes and avoid or delay nursing home placements at a significantly lower cost than institutionalization. In order to determine the program's success, HUD contracted with the Hebrew Rehabilitation Center for the Aged of Boston, Massachusetts to perform an an extensive evaluation. The findings of this 5-year study are expected to be published in late Spring, 1985.

However, if you ask anyone connected with the CHSP grant across the United States whether the CHSP works, you will hear a resounding - yes! The participants, their families and staff are keenly aware of the difference between the quality of life in one's own home with provision for assistance - and a nursing home.

Not only has the CHSP provided an improved quality of life at this semi-independent level, its success can easily be measured in dollars. In a study conducted independently by the CHSP grantees in March 1983, costs of operating CHSPs compared to institutional care were analyzed. The data collected showed that it cost less than $5,000 per person per year to provide CHSP services and subsidization of housing. This is approximately $10,000 less per year than it cost the taxpayers for one person to reside in a nursing home over the same period of time. The CHSP grantees believe the figures speak for themselves, for each dollar spent on CHSP services per participant annually, two dollars can be saved by preventing or delaying institutionalization.

CHSPs have successfully assisted people to avoid nursing home placement. Data from the CHSP independent study showed that an average of 3.5 people per CHSP site across the country are former nursing home residents who were able to leave the institutions because CHSP services provides for an adequate level of care. In St. Paul, Minnesota, 14 people have been able to leave institutions to move into the CHSP since the program's inception in 1982.

Data collected demonstrate there is a need for many additional CHSP - type programs across the country. Once CHSPs have become full, CHSP administrators have had to turn eligible applicants away. In fact, an average of 4.7 persons presently exist on each CHSP waiting list. We know that up to 24 percent of the nation's elderly population who reside in public housing's 1.2 million units need supportive services and are at risk of requiring nursing homes.

The elderly population will double in the next century, but the ability of the wage-earning segment of the population to support their needs is expected to be cut in half. People beyond age 85 are the fastest growing segment of the older population. It is this group that is most vulnerable to physical, mental and social limitations that lead to the need for care and services. In view of the fact that the growth of our elderly population is outpacing government revenue, tax dollars won't go far enough if nursing homes are the only answer for frail and disabled elderly. CHSP is one viable alternative.

Senator HECHT. Thank you.

In response to your question to me, any of the panelists who want to submit additional matters for the record, please feel free until such a time about a week before we begin to mark up the bill.

For the panel, Ms. Russ has indicated that Federal limits on tenant rents under the Brook amendment reduce the housing authorities flexibility and operating funds. Do you support removing these restrictions on rents and what rent increase would you impose if you had the flexibility?

Ms. RUSS. No, I do not support it. I was providing that information purely historically.

INCREASE TO 30 PERCENT

With the passage of the 1981 housing and community development amendments, the tenant contribution was increased from 25 to 30 percent. I think that is adequate. That is stretching it for some families. The 1983 Housing Urban Rural Recovery Act restructured the deductions from gross income for rent in a way that makes it a little more palatable.

But, I think in fact the families are now paying just about what they can afford to pay. I'm not suggesting that.

What I'm saying is if you aren't going to let us raise the rent—and I'm not proposing you let us raise rents—that's going to punish our families, keep up the other end. We can't tax, and if we manage to make some smart investment with money we have on hand, that further reduces our operating subsidy.

What I'm saying is, we're not proposing that we take this out on the tenants. They can afford it least of all. But if you reduce operating subsidies, you're taking it out on the tenants just the same way.

Senator HECHT. Thank you very much.

What further changes would you suggest either in Department of Housing and Urban Development regulations and practices or legislative changes, to allow PHA's to be more responsive to the problem of homelessness in this country and to better be able to serve homeless individuals, in particular, what changes can be made to make the public housing system more responsive to this problem other than greater Federal expenditures?

Ms. SAUSE. I know Mr. Laden probably wants to respond to that, too.

PROBLEM OF THE HOMELESS

Right on the front end, the Housing and Urban Renewal Recovery Act created three new priorities that make it more difficult for us to house the homeless, not less.

They said that there shall be equal priority for families on the waiting list who are either displaced from their current housing, living in substandard housing, or paying more than 50 percent of income for rent.

Now, the homeless meet that criteria but you have—by the passage of that law—increased the universe of people who are in top priority. And then within those three equal top priorities, they're on the list in chronological order.

Homelessness in Wilmington is a fairly recent phenomenon. We're shaking our waiting list up right now and what we're seeing is, people who by virtue of homelessness were formerly higher on the list, are now going to be lower because there are more families in that top priority and their applications came in later.

So, one thing you could do is take a look at those Housing and Urban Renewal Recovery Act priorities and if you truly want a priority for homelessness, you've got to set it up that way.

Senator HECHT. Thank you.

Mr. Zigas.

Mr. ZIGAS. I would just note, Mr. Chairman, that I would hope the Congress—in a laudable attempt to help the homeless and to help this crushing problem that so many cities face—not take the position that the answer to the problem is simply to create a new reason for public housing to exist without expanding the resources available.

Study after study has shown that the majority of the homeless families who are the ones, I think, who are most likely to be assisted by changes to public housing authority rules, or most likely to be successfully housed in public housing, are not coming from no place. They're not being spontaneously generated on the streets. They are being pushed out of the private housing market because they do not have enough money to pay the rents that are demanded in the private sector.

The Congress could go a long way toward helping to solve the homelessness problem, not by trying to take the meager resources now on the street and convert them to a priority need for one section of the population. But by recognizing that there is an adequate amount of Federal support for families currently in the private market, and they are falling out of the housing market because there is no place left for them to go to get support.

I think you have to look at how can you deal with that problem in the private sector; how can you use the Section 8 Existing Housing Program. We'd like to see the Voucher Program get on the street so we can evaluate whether or not it works.

The administration hasn't yet started that demonstration so I'm not going to propose to you vouchers, because we don't know if they work well or not, but we have a lot of experience with the Section 8 Existing Housing Program. We know that many of these families—if they could be reached in time—if they could get the assistance they need to stay in the units they occupy now, would not end up being homeless or they could take the certificates and go find housing and not be homeless.

I think it would be a bad mistake for us to focus on what is the current pool of assisted housing resources and how do we now create a priority for a new class of people who are in housing need with that one limited resource and not understand that all we're doing is shuffling a growing number of people in a very, very finite universe of assistance.

The answer—in many cities—to the homeless crisis is to provide sufficient assistance to those individuals to seek the housing they can find in the private market or to stay in the housing they have now before they get pushed out of it because of rent increases they cannot bear.

Senator HECHT. Thank you. Mr. Laden.

Mr. LADEN. The main problem, of course, is availability of units and I know that we have one question, whether we have sufficient vacant units. In some cases they could be used. We really don't need too many changes in regulations. What we need, really, is the availability of space.

We are conducting a survey now of waiting lists throughout the country, and I hope it's back in time to submit to you and that will give you a little handle. I don't think HUD ever goes out and finds out how many people are on the waiting list. In fact, I don't even know whether they really know how many units they have at times.

But I think if we submit that information to you, you'll see that there's very little we could really do about the major problem.

We have individual problems of the homeless where people have been forced into shelters, especially battered women, and then they come to us and we can't provide for them. And that's what really hurts, that we just don't have the space. Most PHA's are cooperating on the homeless as much as possible.

For example, where there's a large number of vacant units in Newark, there's no way we could take the New York City homeless and move them to Newark. Both Governors disagree.

Senator HECHT. Thank you very much.

Ms. Sause.

Ms. SAUSE. Yes; this is a subject that NAHRO is very, very concerned about encompassing, as we do, block grant activities as well as public housing. And many of our cities are trying to address this on their own and trying to find ways of helping to expand social services to deal with the problem.

SHELTERS FOR THE HOMELESS

In my own city, we have spent approximately $4 million this year creating shelters for the homeless and this takes money from other needed services, but it is priority both with NAHRO and with our localities in trying to deal with this increasing problem. It's not just families who are on the street; it's people who are released from mental hospitals, from all segments of life who are suddenly now congregating with no resources, no safety net—if you will—for these people. And, therefore, it's a growing national problem for all of us to deal with.

Public housing cannot accomodate the Nation's homeless. We already have a 24-month waiting period in San Francisco and no vacancies.

Senator HECHT. Thank you very much.

Mr. Laden, following up on your testimony, will you work with elderly housing groups and jointly supply something to the committee that would be acceptable to both interests?

Mr. LADEN. That's like being in the middle of a war.

I will try to get you some information on that. We've been meeting with the—in fact, the advocates of pets, the pet lovers, we have had them submit proposed regulations and we'll follow them. Actually, they've been more difficult—they made tougher requirements of the pets than I would have thought possible.

But I think it's almost—there's two groups there and they strongly oppose it. The opposition, basically, from the in-house tenants, the elderly say, if anybody wakes me up with a howling dog at 2 o'clock in the morning, I'm going to go out and kill the dog and them. I mean, it's a real— those people that are living in those units are really upset. I was surprised; I didn't realize it was that serious of a problem until it came about.

Senator HECHT. Any suggestion we'd be happy to look at.

Mr. LADEN. OK. We'd be just happy if you'd sneak in a little amendment one of those last days and it disappears.

Senator HECHT. No promises. You know, I only work here; I don't run the place.

[The following was subsequently submitted for the record:]

Public Housing Authorities Directors Association
Hall of the States
444 North Capitol Street, N.W. • Suite 403 • Washington, D.C. 20001
202-626-0454

Saul H. Schieber
Executive Director

April 3, 1985

The Honorable Chic Hecht
Chairman of the Subcommittee on
Housing & Urban Affairs
United States Senate
Hart Senate Office Building
Washington, D.C. 20515

Dear Senator Hecht:

May I again extend the thanks of our Association and myself for the opportunity to testify before your committee on March 22, 1985. It is always a pleasure to have the opportunity to present the concerns and opinions of public housing executive directors, but it is a special pleasure to submit such information to such a receptive group.

During the presentation of our views and concerns with pets in public housing, you indicated your willingness to have us submit additional comments on this subject.

Again, I must apologize for the failure of our organization and other interest groups to adequately advise the Senate as to the most serious concerns that our senior citizens have with this issue. Most of the public housing directors underestimated the serious concerns elderly tenants have in reference to admitting pets to senior citizen housing. The opposition from existing tenants has been overwhelming, and if we had conveyed this information to you during the consideration of the original legislation, I believe the legislation may not have been approved in its present form.

When the public housing rents were raised from 25% to 30%, there was some concern expressed by the tenants, but when the pet legislation was announced, the opposition was a thousand time greater.

The Honorable Chic Hecht
April 3, 1985
Page 2

We recommend that consideration be given to amending the present law concerning the admission of pets to housing for the elderly. May we suggest an amendment that would permit the present occupants of housing for the elderly to exercise their democratic right to decide by voting whether or not pets be permitted in their particular development. Pets could only be rejected by this vote if it was by a substantial majority. We would recommend that a substantial majority be defined as 75% or more of the present tenants. This would return the issue to those who are most effected, and would be a ratification of our faith in the democratic system.

Sincerely,

PUBLIC HOUSING AUTHORITIES
DIRECTORS ASSOCIATION

Joseph F. Laden

Joseph F. Laden
President

JFL/pas

Senator HECHT. I am concerned about the amount of overhead costs in housing programs, not only HUD's administrative costs but additionally the local cost of implementing the program. Which of the housing programs is the most expensive for you to operate and which is the least? Want to go down the line?

Ms. RUSS. Yes; we don't have as broad experience as some housing authorities because the only two programs we operate are conventional public housing and section 8 existing, mod rehab, and rental rehab.

COST OF HOUSING UNITS

Of those two, on a dollar per family per unit basis, public housing is cheaper. It's $257 per unit per month in Wilmington and that includes all utilities. And I defy anybody to manage it any cheaper than we do. We run real lean.

Senator HECHT. Excuse me, what was that again, now?

Ms. RUSS. $257 per unit per month including utilities.

Senator HECHT. How big is that unit?

Ms. RUSS. That's average. The average unit is about 3.1 bedrooms, something like that. Because we have many large units.

Senator HECHT. How many square feet? That would give me a better idea.

Ms. RUSS. 840 square feet, maybe. They're not palatial, by any means; they're small.

The Section 8 Existing Program that we operate costs probably an average—I'm guessing here—I'd say between $320 and $330 per family per month.

But to be fair to the private landlords in the program, a lot of these units are newer than our public housing units.

Senator HECHT. Would you like to answer that?

Mr. ZIGAS. I'm going to pass since we don't operate.

Senator HECHT. Fine.

Mr. Laden.

Mr. LADEN. The most expensive units to operate because of wear and tear, are the large family units in the public housing. But, on the other hand, there's nobody else in the community that produces housing for large families. So, we're left with that problem.

The least expensive are the senior citizens. In fact, we have an almost—I wouldn't say profit, but they support our large families, really. I just wish I had my hands on all that money those section 8 new developers made on the section 8 elderly housing to support my other units.

The Section 8 Existing Program, which we operate, we find that to be easy to operate and we have adequate funding on that at present but if we are cut back I'm going to be concerned about the future development of the program as far as maintaining the high level of inspections that are necessary to guarantee good units.

That's the key to that program.

Senator HECHT. Thank you. Do you have anything to add?

Ms. SAUSE. Nothing to add.

Senator HECHT. We go on.

The administration and the Congressional Budget Office indicate that with moneys presently available, we can house more people

with a Voucher Program and existing housing. Therefore, why do you ask us to spend more dollars per household on new construction?

Ms. RUSS. Oh, I wanted that one.

Senator HECHT. You got it.

Ms. RUSS. That assumes the availability of standard housing. And in many communities, that just isn't the case. Everybody has said the Section 8 Existing Housing Program, which does just that via certificate rather than a voucher, is a good program; and I agree.

But in Wilmington, we think we're assisting close to 85 percent of the units eligible for assistance at this point because the program presupposes the availability of units at a certain price, at or below the fair market rent, with landlords who are willing to participate—because some landlords do not want to deal with us or the Federal Government—that meet certain quality standards.

There are a lot more families than there are units in Wilmington. The vacancy rate is 1.8 percent in Wilmington and the average rents are high.

A Voucher Program will do two things in Wilmington. It will enable the poor to pay with vouchers a very high percentage of their income for rent with subsidies and it will increase the price of the slums.

Senator HECHT. Anyone else want to tackle that? Yes.

QUESTIONS ON VOUCHERS

Mr. ZIGAS. Well, I would just say that, you know, there are two questions, I think, implicit in what you're asking. The first is vouchers, as the administration is proposing them, are cheaper only because they're proposing to provide them for one-third of the time that section 8 existing housing certificates are provided. And we're very concerned about proposals that shorten the contract term on assistance, because of our fear in outyears, as these units begin to roll over and begin to have to get refunded, that the pressure simply to keep the existing inventory in shape will preclude any further advancement toward incremental units. But I think it's important to state that vouchers versus certificates are cheaper only because their contract term is less. Otherwise they cost the same.

I would also second what Ms. Russ has said about the need in certain markets to be aware of the fact that there simply is not an adequate supply of housing available, even if there are vouchers.

Ms. RUSS. Not standard housing.

Mr. ZIGAS. And not standard housing. When I was at the Conference of Mayors last year, we produced a report from 66 cities on housing conditions and needs, and we found that waiting lists were very high, and we found that 55 percent of the respondents who responded to our survey all across the country found at least 25 percent of the certificates that they gave out came back because people couldn't find decent, safe, and sanitary units renting below or at the fair market rents at a family or unit size compatible with their needs. That says to me that there are needs that vouchers or certificates cannot meet.

Having said that, I want to go on record as saying that the Low Income Housing Coalition has long supported, and we testify in our written statement today, a universal program of direct assistance to low-income people to enable them to afford housing, because we think that the affordability problem is the greatest problem facing people. We think it is important to address, and we think that having addressed it, we'll have a much better picture of the new construction and substantial rehabilitation needs, which we also believe need to be met in many markets. But there is no question that the overwhelming problem facing poor people today in housing is that they pay too much for the housing they have, as the figures I gave you earlier showed.

Senator HECHT. Thank you.

Mr. LADEN. I think I agree with everything that's been said, but I want to emphasize one thing here, that the section 8 or the Voucher Program did not provide the units that we need for large families. The private developer will not make four- or three-bedroom units available because of how much rent you pay him. So that's the most important aspect of it.

The other thing, I think the committee should give serious consideration to eliminating the development aspect of HUD. If we cut them down to zero, that means all those people will disappear, and some of them we want to cadre there, at least, because someday in the future, we're going to have to start building. I mean, everybody knows, you just can't keep putting it off indefinitely, and when the economics permit it, if we've dismantled the system completely, then it is going to take 5 or 6 years to put it together. So some of that system has to be maintained.

Senator HECHT. Anything to add to it?

Ms. SAUSE. Just a brief perspective from the other side of the country. San Francisco has precisely the same problem as Wilmington. We have a 1-percent vacancy factor. We have people who have no opportunity to find units, even if they have vouchers for the units, so it is a problem in cities all across the country.

Senator HECHT. Thank you. Currently, there is a great deal of interest in successful examples of tenants managing public housing. And I'd like to encourage expansion of such programs.

What proposals do you have which would allow tenants to have a greater involvement in the management of the building? Start with you.

Ms. SAUSE. I'm sorry, Senator, that's not my field of expertise.

Senator HECHT. OK. Mr. Laden, would you——

Mr. LADEN. I don't have any current information on it. We have looked at several of the reports that have been produced by HUD. We've looked at the situation in New Orleans. The judgment is still not final. In some cases, it's been successful. In some cases, it has not been successful.

I know you have one here in Prince Georges County that's been very successful, I believe, and yet there are others that haven't been, I think. Rochester wasn't too successful, and there are other areas that haven't been.

Again, it's something we can't ignore. We've got to continue to look at it. It can work in some cases, and in some cases it can't. It's just like home ownership. We're very concerned about the home

ownership issue. We like to see people own their own homes, yet I'm very concerned that we will give out false hope to people. And that's something I don't want to be part of.

Senator HECHT. Thank you. Do yo have anything to add to that?

TENANT MANAGEMENT

Mr. ZIGAS. No, only to note that I think it would be very good if the Senate would move forward and hold some hearings on the tenant management issues, really thoroughly investigate the question. Our group has long supported a greater role for tenants in management, because we think it helps keep the housing better managed, and it's a better way of life for the tenants. I would also hasten to add, however, that the public housing home ownership demonstration which HUD has offered as the next logical step beyond tenant management, is something that troubles us greatly, not because we don't support home ownership as an opportunity for low-income people, but because at a time when the administration is proposing to eliminate any additional funding for low-income housing, we don't understand how you can propose to reduce the stock of rental housing available. And we'd like to separate those two issues, and I would encourage the committee to hold hearings on this question, so we can get more testimony from experts who actually participated in those experiments.

Senator HECHT. Thank you. Anything to add to it?

Ms. RUSS. Yes. We favor tenant management. We're looking at it at Wilmington. We, like Mr. Laden, are familiar with success stories and also some less well-publicized failure stories, but you can learn from failure too. The thing that we're concerned about is the extent to which the successful examples hinge on a few very talented charismatic individuals. We're trying to see just the exact extent to which the success experience is transferable.

We hire a lot of residents. We have a lot of residents in management. One of the things that it requires is some real skills. There's got to be some training built in here. There's got to be a chance to learn the ropes. This is a very complex business, and you can't just assume that because you have somebody who is bright and energetic and motivated, that you can turn over something this complex to them. You've also got to have the training loop in there.

Senator HECHT. Thank you. One last question. There are several proposals which seem to allow public housing tenants the opportunity to buy their own apartment. What are your thoughts on this? Ms. Sause, do you want to start with that one?

HOME OWNERSHIP OPPORTUNITIES

Ms. SAUSE. Again, NAHRO has very definitely considered this position, and we believe that home ownership opportunities are valuable and should be offered to all persons. Again, the concern is that there is such a need for the public housing units that we now have, waiting lists are endless, therefore, we are urging that home ownership of public housing units be replaced unit per unit. Per unit sold, a new unit should be built, as well as providing a subsidy—or a maintenance reserve is a better term for it—for units sold under such circumstances. As Mr. Laden observes, we could be

vastly harming the people that we are trying to help by putting them in an untenable situation, where they cannot meet the payments or succeed in this ownership opportunity.

Senator HECHT. Thank you. Anything to add to that?

Mr. LADEN. No, I think we're in total agreement on it, with one additional factor. If we're going to go into home ownership, there must be a definite training program over a period of time and closely supervised, because without the training, there is no way it could succeed.

Senator HECHT. Thank you.

Mr. ZIGAS. We've addressed the public housing home ownership demonstration in our testimony, and I'll let that stand. I would only add to that that the Congress, of course, has a program at its disposal that is designed to provide home ownership opportunities to low- and moderate-income people, the section 235 program, and we'd like to see the Congress invest some real time and energy in revitalizing it, so that we can add a home ownership component to the number of tools that HUD has to deal with the low-income housing problem. And we think that would be a very satisfactory way to move.

Ms. RUSS. I agree with Barry, and I second his idea about taking another look at 235. Farmers Home Administration never dismantled their equivalent program, the 502 program, and that program has been enormously successful across the country. It has certain glaring failures everyone talks about, but across the country, it's been a very successful program. It has assisted a lot of families. I wouldn't call it a low-income program, because I would put to you that home ownership for low-income people, and I mean the people that I am housing, people with incomes below $5,000 a year, is highly questionable. I did an analysis when this demonstration program came out from HUD, and my highest income tenants, if we gave them their units, flat out, gave them away, couldn't afford the taxes, insurance, maintenance and utility costs on them, after 2 years. I mean, I didn't have to go very far into the future, and I assumed they were going to increase their payments over what they're paying now.

I am in favor of home ownership. I've worked at in previous incarnations, other jobs, but I really think that this program is very cynical and disingenuous, and we don't support that.

Senator HECHT. Thank you.

Mr. ZIGAS. Mr. Chairman, if I might add, just a cost figure.

Senator HECHT. Yes.

Mr. ZIGAS. In Minneapolis-St. Paul, we looked at this question somewhat thoroughly, and I want to add for the record some facts about cost, because Ms. Russ has made a very good point. We have looked at a cooperative in Minneapolis, a low-income cooperative. It's a limited equity co-op. It's managed by the people who own it. It has very low overhead, and when you take out the debt service, and understand, there is a considerable amount of sweat equity going into the project through self-management, work on repair, and so on and so forth. The cost for a five-room, one-bedroom apartment in this building, in a nice, but certainly not spectacular neighborhood, comes to $150 a month. And if you multiply that out

as 25 or 30 percent of housing costs, you're looking at somewhere in the vicinity of a $7,000 a year income.

The median family income in all of HUD-assisted housing in 1983, was $5,800. I mean, that's the facts of what you're looking at to support this housing. And it's not to argue we shouldn't have a component, but I think we have to be realistic about who it reaches, what it costs, and what the subsidy obligations would be to really try to reach very low-income people through a mechanism like that.

Senator HECHT. Thank you. I have another question from Senator Slade Gorton, and I'd like to ask you this.

DISPLACED PEOPLE

The Department of Housing and Urban Development has published a proposed regulation to give poor families and elderly individuals, who lose their home through no fault of their own priority, for admission to public housing. Until the proposed regulation becomes effective, public housing authorities may admit the homeless under the emergency priority admission category.

If the PHA does not have this category in its admission policies or would like to add it in, in order to house the homeless, the Department has said it will work with the PHA to make this change as quickly as possible. Additionally, if the PHA has some units which it is having difficulty in renting, the Department can authorize it to rent these units to single nonelderly homeless persons who otherwise would not be eligible to live in public housing.

Do any of you have any comments on that?

Ms. RUSS. We're doing that. We have obtained the permission to admit single nonelderly homeless persons, and we have, in fact, at this time, a priority for displacees. The problem with the priority for displacees is, if they are families, and as Barry points out, families are the ones who have the most difficulty. There aren't that many shelters for families. We only turn over 125 units a year, in a big year. I mean, we can't get at the problem with the units that we have.

Senator HECHT. Thank you. You just answered it. Anyone else have any comments on Senator Gorton's question?

Mr. LADEN. I think, in a lot of cases, the PHA's, regardless of what HUD says, have been doing this and taking care of it. And I'm sure in most cities, if an elderly person was—a home was repossessed, that they will be taken care of.

Senator HECHT. I'd like to make an announcement about questions for the record.

Senator Riegle and other members of the subcommittee have questions for the record. I am sure all our witnessess will respond to these. The subcommittee staff will contact the appropriate witnesses to keep all these questions coordinated.

[Response to written questions not received in time for publication.]

Nothing else for panel No. 2. I am going to call about a 3-minute break, so we can stand up and stretch, and then we're going to start panel No. 3.

[Recess.]

Senator HECHT. If there is anyone outside who would like to come in, we will resume our hearing. Before we start the third panel, I just want to make a personal note and welcome Marc Hechter, administrator, housing division, Carson City, NV, department of commerce.

Mr. HECHTER. Thank you, Senator.

Senator HECHT. And we will now begin our third panel, and why don't you just start off.

STATEMENT OF MARC S. HECHTER, ADMINISTRATOR, NEVADA HOUSING DIVISION

Mr. HECHTER. Mr. Chairman, today I'm here to represent not just the State of Nevada's Housing Finance Agency, but all of the housing finance agencies represented by the Council of State Housing Agencies [CSHA].

That is some 57 State-chartered HFA's across the country including such local organizations as the New York City Housing Development Corporation, the District of Columbia Housing Finance Agency, Puerto Rico and the Virgin Islands, as well.

FEDERAL GOVERNMENT PARTICIPATION

Collectively, over the past 17 years of the existence of HFA's in this country, we've been responsible for producing an estimated 572,000 units for home ownership opportunity and some 676,000 rental opportunities.

Over the last 50 years, we in this country have come a long way in meeting housing needs for our population. This progress represents not only the wealth of the country but also the very high priority given housing and housing needs by the public at all income levels.

Much of the improvement in housing for these Americans, however, has been due to Federal participation, and a significant amount of Federal participation, to produce market advantages for many who need them.

Federal policy has played a very instrumental role in meeting these housing needs both through such mechanisms as the Federal credit supports for home ownership through the S&L industries; through FHA mortgage insurance; or even later, and now, through the secondary mortgage markets. Special programs, such as those sponsored by the Veterans' Administration, target special housing needs.

Particularly conscious of the requirements of those of lower income, the Government has also introduced subsidy programs and special credit and tax supports for rental housing. These actions have helped increase the housing stock, which, in turn, has resulted in increased opportunities for many persons at all income levels.

And while no one debates that there's been an improvement, we cannot start thinking that the job is done. The problem of affordable housing for low-income people is growing, and without continued commitments both to new housing production and to the maintenance and preservation of existing federally assisted housing stock, the problem will only be exacerbated. Those who are out of the mainstream for many reasons, including the homeless, recent

immigrants living today in overcrowded conditions, and those on waiting lists for section 8 and public-assisted housing will be most dramatically affected by your actions.

Because of the relatively recent cutbacks in Federal programs aimed at producing new housing units, there is growing evidence that housing stock replacement is indeed falling short of actual needs.

Today's questions that are often addressed and framed mostly by our economists and spouted regularly by significant persons throughout the country question whether or not too much credit support has been given to housing as an industry at the expense of other capital opportunities.

This administration seems to have answered affirmatively, they are not alone. The last Democratic administration also shared this belief. Witness, for example, their support for ending the system of protecting lower interest rates for housing and ending the use of mortgage revenue bonds.

However, the prior administration was also concerned about the negative impact of dramatic changes in direction, and the impact that this would have on those least able to afford reduced governmental support. Because of that, direct outlay programs were continued and governmentally sponsored secondary market programs were encouraged.

The deficit is indeed a real problem. Capital readjustment is certainly necessary. But whether or not that can be in and of itself victory at the expense of many low-income citizens, I think, is grossly unacceptable.

I'm of the opinion, as are many others, that the economists who favor radical changes in housing support understate the importance of housing to our economy, overstate the impact of credit supports, and generally miss the public's priority for housing.

EXPANDED ROLE OF STATE GOVERNMENTS

An element to consider obviously in dealing with these issues is an expansion of the role of State governments. State governments, over the past decade, have been developing skills and programs which are a logical base for continued governmental participation in housing.

At this point, I want to refer to some of the statistics from my agency in Nevada:

Since 1977, when we started an HFA, we've assisted nearly 8,000 homebuyers throughout the State, through our Single Family Program, and have produced 35 different multifamily projects, which generated nearly 3,000 available rental units targeted for low- and moderate-income families.

Sixty-five percent of our Single Family Program, funds have gone to families earnings less than $20,000 annually; 24 percent of those loans have been granted to families earning between $20,000–$25,000; and just over 11 percent have been for families at or below 120 percent of the median income; and nothing has been given to families over 120 percent of the median income.

In the absence of Federal rent subsidies, our State HFA has reserved, always has required, and continues to reserve, minimum set-aside units for low-income rental tenants.

In the early stages of our activity, this was for 100 percent of the units we constructed. Today, we target for 20 percent set-aside. Currently, 34 percent of the units we've produced and still manage are occupied by families and individuals that are earning less than 50 percent of our State median income. Thirty-five percent go to families between 50 and 80 percent; and only 20 percent of the units are occupied by persons reaching the 120-percent level.

I'm very proud of those production statistics and hopeful that we are going to continue meeting our goals. However, there are some very major problems taking place in housing markets, particularly in fast-growing Western Sun Belt States. With the demise of section 8 and other programs targeted to serve very low-income persons, our production is generally limited to what is a low- and moderate-income household group. We tend to exclude an opportunity to very low income. That can only be achieved through continued assistance from the Federal subsidies.

Because of the substantial population growth we've experienced in Nevada, and we're not unlike many Sun Belt States, there is and will continue to be a significant housing shortage. In the last decade, our population grew at a rate of 64 percent, and while we're statistically the highest growth rate State, many other Sun Belt States weren't far behind in those kinds of numbers.

Our projections through 1990 are another 25-percent increase in population. They're going to have to live someplace.

The HFA's collectively represented by CSHA have a very long history of success in partnership with many Federal programs. We, in the West, have been somewhat less active in section 8 opportunities, deferring to our local public housing authorities to manage those activities. But, from section 236 to the HoDAG, HFA's have provided rental opportunities for more than 400,000 households.

We've also provided opportunities through use of the FHA and VA programs, and in many parts of my State, through continued cooperation with the Farmers Home Administration.

Your committee and this subcommittee is the only hope that an overall perspective with respect to housing can be obtained as you analyze and debate changes both for direct spending and indirect supports through the Tax Code. As direct subsidies are reduced, as they already have been and will continue to be, indirect supports become all the more important. Those supports are important in very significant ways.

They must be maintained in some form or we're going to see a significant housing disaster, both in new production and in existing facilities. The support to be maintained should, in our opinion, be balanced to be most effective in providing what the equitable housing opportunities are going to be.

I believe it's very important that this subcommittee, and the committee in general, work with the Finance chairman, Senator Packwood, to raise all of these issues as tax reform becomes a significant matter to debate later this year and early next.

PROPOSALS FOR THE COMMITTEE

In conclusion, I would like to suggest several courses of action the committee should take. One, you must continue your efforts in the budget and appropriations process with respect to the recently concluded deliberations of the Senate Budget Committee.

CSHA would urge you to help ensure that a fair level of direct assistance for housing continues to provide it. This should include support for contracts you've already entered into. It should provide a reasonable level of new production assistance, and should continue affordability subsidies, whether they're going to be direct subsidies or a Voucher Program. They have to be debated, addressed, and produced.

Your work on authorizing legislation should continue to maximize every program opportunity within your jurisdiction. The council believes there are several ways to direct and target that which is the purview of your committee, and we are more than happy to work with you in exploring any of those options you wish.

By continuing your efforts in the tax process as well as the budget and appropriations process, you can provide an integration necessary to develop what the direction of housing policy in this country is going to be.

The administration has well set their crusade to reestablish complete market control by eliminating all subsidies and all tax preferences favorable to housing, except for the continuation of the mortgage interest deduction.

Make no mistake about the future. We expect change to come and it will be very dramatic. It may even be essential if we are going to deal with the significant issues of the deficit and their consequent negative impacts on interest rates. However, we must maintain an integration between past commitments the governments have made—at all levels—and a continuing commitment to provide housing opportunities throughout this country.

And that's what we ask you to do in conjunction with the tax committees of Congress.

Thank you.

Senator HECHT. Thank you. See how organized people from Nevada are? [Laughter.]

[The complete prepared statement follows:]

TESTIMONY OF

MARC S. HECHTER, ADMINISTRATOR, NEVADA HOUSING DIVISION

ON BEHALF OF

THE COUNCIL OF STATE HOUSING AGENCIES

BEFORE

THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

MARCH 22, 1985

Mr. Chairman, Members of the Committee good morning, my name is Marc S. Hechter. I am the Administrator of the Nevada Housing Division. Today, Mr. Chairman, I represent the Council of State Housing Agencies (CSHA). The Council of State Housing Agencies represents the 57 state chartered housing finance agencies across the country including the New York City Housing Development Corporation, the District of Columbia Housing Finance Agency, the Puerto Rico Housing Finance Agency and the Virgin Islands Housing Finance Authority. Collectively, during the past seventeen years these agencies have provided financing for more than an estimated 572,000 single family homes and the new construction or substantial rehabilitation of more than an estimated 675,300 rental units. CSHA also represents more than one hundred and fifty affiliated organizations including firms specializing in housing finance and housing development. This morning, I will summarize my testimony and ask, without

objection, that my extended remarks be included in their entirety in the record of these proceedings.

Before I begin, let me congratulate you, Mr. Chairman, for holding these timely hearings and thank you for allowing CSHA to testify today.

My testimony today will first briefly focus on those elements that have led us to be the best housed nation in the history of the world. I would then like to discuss the continuing challenges we all face in answering the unmet needs of many Americans who require housing assistance, and finally, suggest possible future courses of action. When Congress passed the Housing Act of 1949, it established the goal of "a decent home and a suitable living environment for every American family." Mr. Chairman, on behalf of CSHA and all the member state housing finance agencies, I am here before you today to reconfirm our commitment to those few simple but significant words. At issue today is not whether there is a role for the federal government to play in housing our citizens, but what that role should be and how state housing finance agencies can best help.

Over the last fifty years we have come a long way in meeting the housing needs of our population. This progress represents not only the wealth of our country, but also the high priority given housing by the public at all income levels, combined with an effectively organized private industry. Much of the improvement in housing for all Americans, however, is due to federal intervention which has given housing certain market advantages. Particularly since the recovery period following the Depression, not only have we, in

effect, re-housed America, but in so doing, we have continued to meet the challenges of expanding and divergent population. Since World War II, rural housing has changed as has urban/metropolitan housing. For example, the electrification of America brought rural America into the mainstream of an advancing technological society. Suburban metropolitan areas which developed following World War II met the demands of an ever increasing population including those seeking alternatives to urban life.

In large measure, federal policy has played an instrumental role in meeting the housing needs of our population. The federal credit support for housing ownership whether through the Savings and Loan industry, FHA mortgage insurance, or later through the secondary market, allowed access to what is now the American Dream. Special programs such as those sponsored by the Veterans Administration target special housing needs. Conscious of the requirements of those of lower income, the government also introduced subsidy programs and special credit and tax supports for rental housing. These actions helped increase the housing stock which, in turn, resulted in increased opportunity for persons at various income levels.

Let me now review present circumstances. Keep in mind the elements of our past success; the wealth of our nation, an effective industry and governmental support which flowed from the general public's support for housing, and governmental intervention to equalize access to housing opportunity for all incomes.

Housing Need: While no one debates that there has been improvement, we must not be lulled into thinking our job is done. Far from

it. The problem of affordable housing for low-income people is growing. Without continued commitments both to new housing production and to the maintenance and preservation of existing federally assisted housing stock, the problem will only be exacerbated. Those who are out of the mainstream for many reasons including the homeless, recent immigrants living today in overcrowded conditions and those on "waiting lists" for Section 8 and Public Housing will be most dramatically affected by our actions.

Are we, in fact, able to guarantee that our progress, over the period of the last fifty years, is locked in place? I think not. Indeed, many of our gains may be temporary. Because of relatively recent cut backs in federal programs aimed at producing new housing units, there is growing evidence that housing stock replacement is falling short of our actual need. Left alone, without some form of governmental intervention, the future is very bleak for those out of or at the edge of mainstream America.

Housing Capital Formation: The question as framed by the economists is whether this country has given too much credit support to housing as an industry at the expense of other capital opportunities which could lead to a more productive and dynamic economy? Given that our nation's overall wealth is key to good housing, this is a critical question. This Administration seems to have answered affirmatively. They are also not alone. The last Democratic administration shared this belief. Witness, for example, their support for ending the system of protecting lower interest rates for housing and ending the use of mortgage revenue bonds. However, the

previous administration was also concerned about the negative impact of these rather dramatic changes in direction and their impact on those who could least afford to compensate for reduced governmental support. Direct outlay programs were continued and governmentally sponsored secondary market programs were encouraged to replace the old systems.

I am not here today to say that we should not modify our course of action. Capital readjustment may, in fact, be necessary. The deficit is a real problem, high interest rates stymie housing progress. The world, after all, is changing. What was good in the past may not work now. I am of the opinion, however, as are many others, that the economists who favor radical changes in housing support understate the importance of housing to our economy, overstate the impact of housing credit supports, and miss the public's priority for good housing. Nonetheless, their ideas are powerful. Thus, Congress will continue to consider additional reductions in direct outlays for housing, and will be debating changing the tax code in a manner which will result in higher housing costs for all, particularly disadvantaging rental housing. As this debate occurs, Congress must somewhere and somehow look at the impacts and the relative risk, and then seek a balanced approach.

A Role For State Government: An element to consider in dealing with these issues is the expansion of the role of state government in the housing discussions. State government over the past decade has been developing skills and programs which are a logical base for continued governmental participation in housing. Let me give you

some examples from my agency in Nevada.

Since 1977, the Nevada Housing Division has assisted nearly 8,000 homebuyers through its single family mortgage purchase programs and has financed 35 multifamily projects, making available 2,759 rental units to low- and moderate-income families. The Division has issued over $715,000,000 in bonds making housing opportunity available to Nevada families and stimulating the economy through the formation of over 16,000 construction related jobs.

These programs carry federal restrictions as well as state restrictions outlining income limits, financial asset tests and other strict underwriting qualifications. Sixty-five percent of the Division's single-family owner-occupied loans have been made to families earning less than $19,999 annually, 24% of the loans have been granted to families earning between $20,000 and $24,999 and only 11% of the loans were granted to families earning more than $25,000 yearly. In all cases, applicants were certified as unable to secure loans from private sources; and without the assistance of the Division's programs, would not have benefited from improved housing conditions.

In the absence of federal rent subsidies, we still reserve, and always have required, a minimum set-aside of units for low-income tenants. Currently, the limit tracks the federal requirement of 20%. The Division requires project sponsors to make "all best efforts" to rent the remaining 80% of units to moderate-income families. Currently, 34% of the total units produced by the Nevada Housing Division are occupied by families or individuals earning at

or less than 50% of the state median income; 35% of the units are occupied by families or individuals earning between 50% and 80% of the state median income; and 20% of the units are occupied by families and individuals earning less than 120% of the state median income.

Because of major actions last year by the Congress and this year by the Nevada Legislature, the Nevada Housing Division has the opportunity to additionally finance approximately 2,850 units of multifamily housing and 1,429 units of single family homes totaling nearly $225,000,000 in bonds for 1985 with the capacity to issue an additional $405,000,000 to support housing needs through 1987.

While I am quite proud of our recent production and hopeful that we will meet our expanded goals, you must, however, be made aware that there are some major changes taking place. With the demise of Section 8 and other programs targeted to serve lower income persons, we have been forced to limit production of multifamily housing to low- and moderate-income households, to the exclusion of the very low-income, although, the Division is developing a form of rent subsidy using our earnings for implementation by 1987.

Because of the substantial population growth since 1970, Nevada, like most sun belt states, has experienced a housing shortage. Population in Nevada continues to grow at a rate five times faster than the national average. Between 1970 and 1980, for example, Nevada grew at a rate of 64% while national population growth was only seven percent. Nevada continued to grow by 18% between 1980 and 1984 and is expected to grow by an additional 23% through 1990. This

rapid growth, coupled with a shortage of capital, high interest rates and building costs, make housing unaffordable to a large sector of the population, and necessitates continued assistance from governmental housing programs.

A Role For The Housing Committee: Mr. Chairman, as you are aware the Nevada Housing Division has enjoyed substantial success despite continued cutbacks in federal programs. However, this is not to say that our successes could not and, indeed, have not over the years been enhanced through the more active participation by the federal government. The HFAs, collectively represented by CSHA, have a rich history of success in partnership with the federal government. From Section 236 to the Housing Development Grant Program (HODAG), HFAs have provided rental housing opportunities for more than 400,000 households. That number has increased understanding our use of FHA and VA insurance and for a number of my colleagues in state agencies across the country an existing relationship to the programs of the Farmers Home Administration.

Mr. Chairman, your Committee is the only hope that an overall perspective, with respect to housing, may be obtained as we analyze and debate changes in our national housing policy both with respect to tax incentives for housing and direct expenditure programs. Let me underline how crucial your intervention into the process now underway really is. We have unmet housing needs. Our progress in so many ways is fragile. As direct subsidies are reduced (as they already have been) indirect supports become all the more important. These supports are important in two ways. First, they must be

maintained in some form or we will see a housing disaster for those least able to afford the inevitable higher housing cost of a market system. The support to be maintained should, in our opinion, be carefully balanced to be most effective in providing for equitable housing opportunities. We believe that it is vital that you work with the Finance Chairman, Senator Packwood, to raise these critical issues.

In conclusion, Mr. Chairman, let me suggest the following course of action for the Committee:

You must continue your efforts in the budget and appropriations process. With respect to the recently concluded deliberations of the Senate Budget Committee, CSHA would urge you to help to ensure that a fair level of direct assistance for housing continues to be provided. This should include support for presently assisted housing, a reasonable level of production assistance, and continued affordability subsidies whether known as existing housing subsidies or vouchers.

Your work on authorizing legislation should continue to maximize the program opportunities within your jurisdiction. The Council believes there are ways to direct and target that which is the perview of the Committee, and we would be pleased to work with you in exploring viable options.

Most importantly, by continuing your efforts in the tax precess as well as budget and appropriations processes, you can provide the overall integration necessary to sound housing policy in these days of change. No one else is available. The Administration is on a

crusade to re-establish market control by eliminating all subsidies and tax preferences favorable to housing except for the continuation of the mortgage interest deduction. Make no mistake about the future, change will come and it will be dramatic. It may even be essential for a prosperous America, indeed, a healthy world. However, no one, in our opinion, is looking at this from an overall housing perspective. We would ask that this Committee do so in conjunction with the tax committees of Congress.

Again, Mr. Chairman, Members of the Committee, thank you for allowing me this important opportunity and I would be happy to take any questions you may have.

Senator HECHT. OK. Mr. Hyde.

Mr. HYDE. Thank you, Mr. Chairman.

STATEMENT OF FLOYD H. HYDE, PRESIDENT, NATIONAL HOUSING CONFERENCE

Mr. HYDE. Along with the congratulations of others, may I also offer my condolences, Mr. Chairman.

Senator HECHT. Well, I'll accept your congratulations, but, you know, when you go in the Army, someone has to do it, so here I am.

Mr. HYDE. We appreciate your courage.

My name is Floyd Hyde and I'm currently serving as president of the National Housing Conference, which is the Nation's oldest citizens organization devoted to promoting decent housing and improving America's communities.

My personal interest in housing and community development matters relates over some 20-plus years, Mr. Chairman, first, as the Republican mayor of the city of Fresno, later as Assistant Secretary for Model Cities and Community Development Program; and as Under Secretary of the Department of Housing and Urban Development during a Republican administration.

I've added to my written testimony the words Republican because I wanted to make sure that the chairman would not interpret some of my later remarks as a partisan attack on some of the administration's policies.

Senator HECHT. I think the need to secure housing is a nonpartisan issue.

Mr. HYDE. Thank you, Mr. Chairman. I think Republicans stand high in that regard, going back to Senator Robert Taft, one of the fathers of public housing.

I would like to say very briefly that in terms of a special interest group, Mr. Chairman, in my own case, for example, the presidency of the National Housing Conference is as you might expect, a nonpaying job, because, normally, you get complaints and not thanks for that kind of a job.

Second, in my personal/professional life, I have no interest—financial interest—in any kind of housing development, building, renting, leasing, or any such personal interest. In fact, I guess my only interest in housing is that if all assisted housing were to cease, the value of my condo in Washington would go up. So I'm speaking strictly from the standpoint of an American interested in what happens to those less fortunate who have such massive problems in finding decent shelter today.

Very quickly, what has happened over the past 4 years, Mr. Chairman, has been stated in many ways. Let me restate it perhaps with a little different perspective.

PROGRAMS CUT 67 PERCENT IN 4 YEARS

Over the past 4 years, at the urging of the administration, Congress has already cut federally assisted housing programs by some 67 percent. Adoption of the present budget proposed in the housing bill by the administration would result in a reduction since 1980 of 98 percent.

No other major program has suffered that kind of devastation. And what really bothers me—it was mentioned almost in passing by one of the witnesses this morning, Mr. Chairman, but I think has to be restated again and again. The comment has been made over and over again by the President and others that to get at this deficit: "We all should suffer equally." "We all should share in the pain and the agony."

Now here we have low-income people who are expected to take a 98-percent cut in housing assistance, while, at the same time, the President has urged in his tax simplification plan: "Do not touch the mortgage interest rate deduction."

That, this year, plus the other deductions—real estate taxes, and so forth—will cost the Treasury $42 billion this year. And when we talk to the $8–$10 billion in a housing bill—last year's bill, I think, was $10 billion—that's spread out over 40, 30, and 20 years. We're talking about $42 billion in 1 year. Next year, it will be about $48, next $52 billion, an escalating amount.

Now I'm not suggesting, Mr. Chairman, at this point, that that deduction be taken away, I'm simply trying to make the point that in fairness, how can we go before the American people and tell them—the elderly, the handicapped, the low-income people—that we're all going to take our share of the cuts while those of us more fortunate, such as myself, I could buy a third home if I could afford it and get full deduction, will take no cuts.

I think the issue of fairness really hits us right between the eyes in housing more than any other issue.

I must say, Mr. Chairman, I'm appearing here not as an apologist for the housing programs that this country has provided for its citizens. I think they've been wonderful programs. Certainly, there have been some mistakes, but I'd hasten to add that in my years—5 years at HUD, and my years as a mayor—I've never seen mistakes that are as costly as the mistakes we keep reading about in the press about what the Pentagon spending is amounting to.

Again, this morning, the $790 pliers.

I appear more in a sense of frustration and outrage that these programs are sought to be cut and eliminated. One of the questions this morning quoted Secretary Pierce, and he says: "We do not seek to eliminate the Federal programs for housing."

I've said for many years, Mr. Chairman, that the best spokesperson for your policy is your budget. The budget speaks as to what your policy is. The rhetoric doesn't mean anything. So if you look at the budget, then the answer to that question is very clear: "Yes, this administration seeks to get the Federal Government out from under any responsibility for housing assistance."

I think that's very clear.

But I'd like to raise another point that I don't deal with in my written testimony, Mr. Chairman. We've been talking, all of us here this morning, with a great sense of caring about housing and the needs that this housing has for lower income people. I'd like to add a little different dimension to that.

I think these housing programs are a great investment in America's future that pay dividends, and that by failing to go forward, we have a high cost yet to come. And let me illustrate that. There have been studies time and time again that show, for example, that a college-educated person will earn in his lifetime several hundred thousand dollars more than one who does not have a college education. And it goes down the line.

A high school graduate earns hundreds of thousands more than one who drops out. I don't have the exact data but that's well documented.

Now I say to you, Mr. Chairman, my experience as mayor, when I visited families, low-income families in every neighborhood of my community, and I saw families with five and six children, young children in them, in a home and I'm describing one directly right now: A one-room house, not one bedroom—one-room house—with six children, dirt floors, no heating, one bare lightbulb in the entire home. And I'm describing tens of thousands of housing units around this country—how in the world can we expect those children to achieve at school when they have to come home and theoretically do homework in that environment?

I'm saying to you, Mr. Chairman, every time we fail to provide housing for that family, we've created three or four more dropouts, two or three more inmates in a penal institution, at great cost to society, let alone the agonizing cost to those individuals in not being able to have the opportunity to achieve and reach their full potential.

NEED TO SPEND MORE

So I'm saying to you, Mr. Chairman, I'm not apologizing for the expenditure in housing versus whatever the increase in defense is. I'm saying we need to spend more. I'm suggesting we not freeze assisted housing this year. I say we must do more, or else we're going to pay a price in years to come that's far greater than the savings we might make in this year's budget.

The obvious question then that you or anyone in this room listening says, "Well, what are we going to do about the deficits?"

Well, I think, Mr. Chairman, like any problem, if we're going to solve the problem of the deficit, we have to look at what caused the problem. That's so fundamental, it needn't be argued.

What caused the problem is very simple, Mr. Chairman. The 1981 Tax—hate to use the word—Tax Equity Act, the 5-year program enacted by this Congress, reduced taxes over 5 years by $750 billion, and increased defense spending by $250 billion. That's a $1 trillion shortfall.

And it was predictable, Mr. Chairman. With due deference, I'd like to show you this article: "Reagan's Fiscal Policy May Double U.S. Deficit."

That was written in 1982.

Senator HECHT. Do you want to put that in the record?

Mr. HYDE. I would like to, Mr. Chairman, and I can vouch for its——

Senator HECHT. So ordered.

[The following newspaper article was supplied for the record:]

[From The Fresno Bee, Nov. 14, 1982]

REAGAN'S FISCAL POLICY MAY DOUBLE U.S. DEFICIT

(By Floyd H. Hyde, Special to The Bee)

FIVE-YEAR BUDGET GAP MAY EXCEED $1 TRILLION TOTAL

The best-kept secret from the American public (and, it seems, the U.S. Congress) is the fact that President Reagan's Economic Recovery Program will double the national debt in just 5 years, adding another $1 trillion to the existing $1.72 trillion now on the books. Could this possibly be true of a President who has consistently preached "austerity" and "balanced budgets" throughout his public career?

Let's look at the facts: On the "Income" side of the Federal Government's ledger (i.e., taxes collected), the so-called Economic Recovery Tax Act of 1981 reduces taxes (primarily for those with higher incomes) by an estimated $748.85 billion for fiscal years 1982 through 1986, according to the Joint Committee on Taxation of the U.S. Congress. On the "expenditure" side of the ledger, the Congressional Budget Office estimates that the increase in military spending for those same years will total some $254.5 billion.

Simple arthmetic would show that the $748.8 billion loss in revenues plus $254.5 billion in increased spending results in a gap between expected revenues and projected expenditures of approximately $1.03 trillion.

In simplest terms, the President's own program is creating the massive deficits and the attendant Government borrowing for which he seeks to blame the Congress. In February, the President's proposed fiscal 1983 budget showed an estimated deficit of between $92 and $121 billion which the Congress found unacceptable. They then responded with a budget of their own for fiscal year 1983 with a deficit projected at $98.3 billion, somewhat lower than Reagan's.

In addition, the Congress later enacted his $99 billion 3-year tax-increase package because of the looming deficits. In spite of these actions, the future years' deficits still appear staggering. The nonpartisan Congressional Budget Office, for example, projects the fiscal year 1983 deficit at $155 billion, and our own calculations indicate a deficit of $175 billion. Recent reports from the White House also indicate a deficit for fiscal 1984 of $175 billion! Why?

It is self-evident that there is a $1 trillion gap in the President's 5-year program, and this means an average deficit of $200 billion per year for each of those 5 years, all other things remaining constant. For the benefit of supply-siders, we should point out that, in order to compensate for the 5-year $1 trillion gap by increased productivity, our gross national product would have to more than double during that period, growing at an average rate of at least 20 percent! Even the most optimistic supply-siders have never envisioned a growth in GNP of more than one-half that rate.

The Congress has apparently failed to come to grips with these realities and no amount of tinkering will change the basic facts. The $99 billion, 3-year tax increase

will be more than offset by the deepening recession, continued high unemployment, and the 1983 indexing of tax rates.

The underlying fatal flaw in the President's program is the fact that he is attempting to carry out a military buildup larger than the cost of the Vietnam war ($254 billon vs. $140 billion) at the same time that he has made the largest tax cut in history. Most economists have attributed the high inflation of the past decade primarily to President Lyndon B. Johnson's "guns and butter" policy in which he refused to raise the taxes necessary to pay for the unpopular Vietnam war, and chose instead to finance it through deficit spending. Because Reagan is repeating this mistake and is financing the massive military buildup by deficit spending, Americans will again have to pay the price of high unemployment, a sluggish economy, and staggering inflation as an economic recovery begins. Indeed, another Vietnam legacy.

The President, of course, has his own plan for solving the dilemma of the huge deficits which the Congress continues to face. After condemning these projected deficits, describing them as the results of "discredited policies of the past," the President has laid down the ground rules for achieving a solution:

Adopt a constitutional amendment prohibiting Federal deficits.

Do not touch the basic tax cuts.

Do not reduce defense spending.

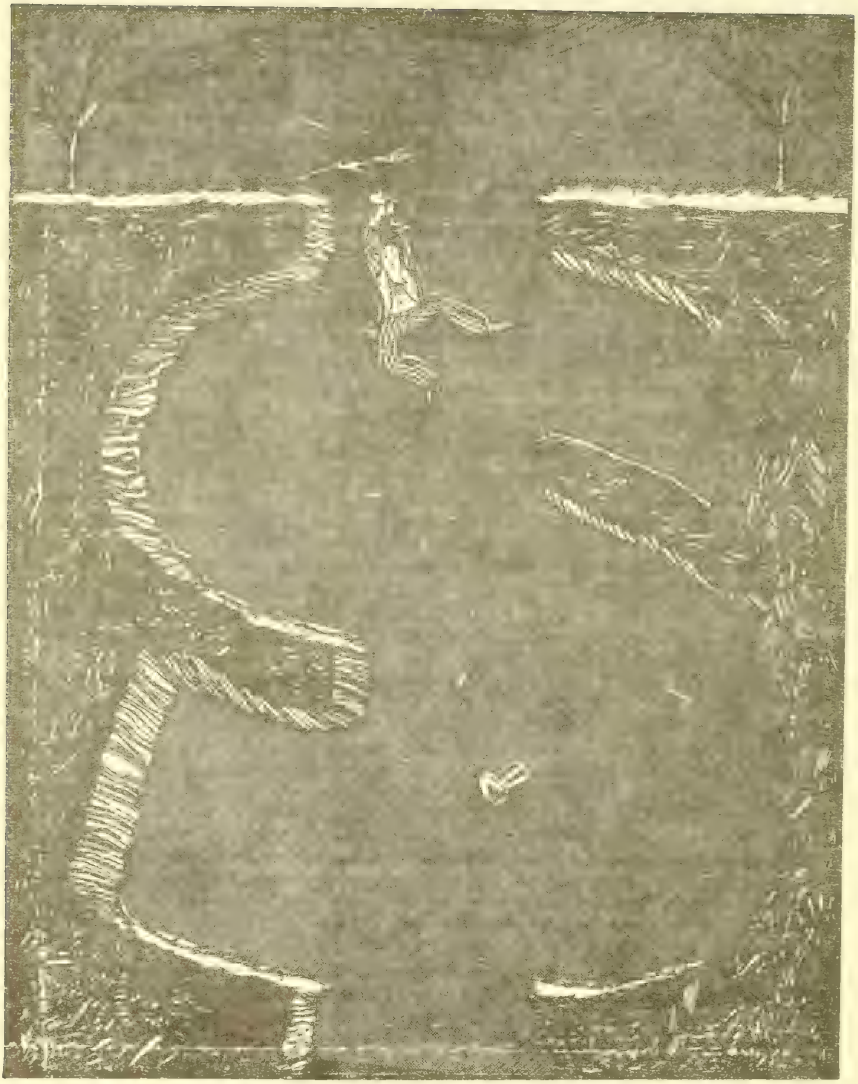
In other words, the Congress, if it continues to play by the President's rules, must find another $1 trillion in budget cuts or they will continue to be blamed for the ever-increasing deficits projected at least through 1986. Having already made substantial cuts in a wide range of discretionary Federal programs (many of which may well have deserved trimming) the Congress has few options left.

With the tax cut and the military buildup off limits, they will now be forced to cut back on the only other remaining large Federal expenditures: Social Security, Medicare, and retirement and disability benefits. These, taken together, are the only nonmilitary expenditures large enough to produce the "savings" necessary to make up for Reagan's built-in deficits.

For fiscal 1983, they will total some $266 billion annually. Is it just possible, then, that with the public pressures for a balanced budget and the President's $1 trillion gap-recovery program, the Congress, through its budget process, will unwittingly be enacting the President's "New Federalism," thus leaving the problems of the poor, the elderly and the unemployed for State and local governments to bear alone? Since the formal proposals for a New Federalism seem to be languishing, this "backdoor" approach for their enactment may well be a deliberate strategy.

The Congress must now recognize the impossible position in which they and the Nation have been placed by the President's program and take bold actions to reverse it. They must do so not only to restore our economy, but also to preserve the fundamental American concepts of equity and fairness that were buried by the enactment of the President's Economic Recovery Program.

NOTE.—Floyd H. Hyde is a life-long Republican who served as mayor of Fresno and later as Under Secretary of the U.S. Department of Housing and Urban Development during the Nixon administration. He currently serves as an adviser to local governments around the country and is the president of the National Housing Conference.



Mr. HYDE. And I can vouch for its accuracy because I wrote it myself. [Laughter.]

But let me just read the first paragraph:

> The best kept secret from the American public, and it seems the U.S. Congress, is the fact that President Reagan's economic recovery program will double the national debt in just 5 years, adding another $1 trillion to the existing $1.72 trillion now on the books. Could this possibly be true of a President who has consistently preached austerity and balanced budgets throughout his public career?

FREEZE THE PROGRAMS

Now, that is how we got here, Mr. Chairman, and I was really surprised to hear the Governors—and I have great respect for them—to come before this committee and say our No. 1 problem in this country is the deficit. However, what we want you to do is, freeze the programs, including defense, don't cut them, freeze the programs, don't have a tax increase, and we will work our way out of the deficit.

It simply cannot be done. You know that, and I know that.

Why can't it be done? Let's do some of the same analysis I did 3 years ago to predict the $1 trillion deficit, which has been added to the books, Mr. Chairman, and tell you that if you enact every cut of the President's proposed budget—and this is something I think my fellow Republicans ought to be very concerned about—my calculations show—and I will give you the data upon which I based it—would indicate that if you provided every cut that is provided, every program termination, next year at this time you would be sitting here with a $220 to $240 billion deficit again, a larger deficit than this year of $220 billion.

I would be willing—I know you would take this in the right spirit since you are from the Las Vegas, NV, area, but I would be willing to make you a bet, Mr. Chairman, with whatever odds you would like to select, that that is what is going to happen without increased revenues. There is no other way.

And I propose—I am running short on my time—but I would like to suggest very quickly, Mr. Chairman, in fairness to the President, who I have great respect for—and I will wind this up right now—but if you simply look at the record and the evidence, it ought to be clear to all of us what has happened. The President has said repeatedly—and I quote in my written testimony a quote in Chicago. I could give you 100 of them—he said, "The Federal Government should be responsible for only two things, national defense and crime." I believe he meant crime control.

He has also said throughout his public career—and our terms overlapped when I was mayor of Fresno. I know him and the people around him very well—he has also said that Federal deficits are bad.

The President has submitted to this Congress three out of his four budgets, calling for a larger deficit than you were willing to accept.

Now, what is the answer, Mr. Chairman?

It is clear to me when the President failed to get his grant consolidation passed in 1982 that would have taken $98 billion in domestic programs, given them to the States with a handful of reve-

nues, which would phase out in 5 years and then terminate, having failed that, that this then is the way to get the programs eliminated. Drive the deficit up so large and no tax increase—he says make his day if you give him one—you have no option next year but to eliminate the rest of these programs.

And I say that is not a corner that any of us wanted to be painted into. I am very serious about that, Mr. Chairman. I am very concerned about it because I don't think the right issues have been debated in this Congress or in the public to this date, and I think it would be a legitimate issue. I would join that debate.

If the American people think that the Federal Government should not do those things, that is fair to discuss and debate. Put the constitutional question aside for the moment.

But we are not debating the right issue, and I think that is where we can get into serious trouble, in making false economies now and paying a very high price later on.

Thank you, Mr. Chairman.

Senator HECHT. Thank you.

You asked a couple of questions for the President. I would answer, but since you and he are such good friends I will let him answer for himself. OK?

Mr. HYDE. Thank you, Mr. Chairman. [Laughter.]

[The complete prepared statement follows:]

Shoot

NATIONAL HOUSING CONFERENCE, INC.

TESTIMONY OF FLOYD H. HYDE
PRESIDENT, NATIONAL HOUSING CONFERENCE
BEFORE THE SENATE SUBCOMMITTEE
ON HOUSING AND URBAN AFFAIRS
MARCH 22, 1985

Mr. Chairman, Members of the Committee:

My name is Floyd Hyde, and I am currently serving as president of the National Housing Conference, the nation's oldest citizen's organization devoted to promoting decent housing and improving America's communities. My personal experience and interest in community development and housing spans some twenty years -- as Mayor of the City of Fresno, Assistant Secretary for Model Cities and Community Development, and as Under Secretary of the Department of Housing and Urban Development.

In view of the many attacks upon them, may I first say a few personal words about "special interest" groups of which the National Housing Conference, I am proud to admit, is one. My own role as president is a non-paying, volunteer position. In terms of my private professional life, I am in no way involved in the home building industry, and do not stand to gain in any monetary way whether federally assisted housing continues or is destroyed. I wish to make this point for the record, Mr. Chairman, because there are thousands of such special interests whose only interest is the well-being of this great nation, and who do care about the less fortunate among us.

Let me just briefly outline some of the consequences of adopting the President's budget recommendations.

Congress, at the President's urging, has already cut Federally assisted housing programs by 67% since 1980. Adoption of this budget would result in a reduction since 1980 of 98%. No other major program has suffered such devastation. All that at a time when Federal housing subsidies for the well-to-do in the form of tax deductions of mortgage interest payments will reach $46 billion this year alone! How can one tell the American people that $46 billion for the rich and ZERO dollars for the poor is fair?

-- The rural housing programs of the Farmers Home Administration would be effectively destroyed by transferring them to HUD. The rural delivery system and expertise developed over two generations would be lost, even if the moratorium were lifted in two years and, to be blunt, we don't believe this Administration really means moratorium. We think they misspelled morbidity.

-- Even HUD has acknowledged that there are some homeless -- perhaps as many as 350,000. We believe the number to be considerably higher, but the HUD budget provides no money even for the 350,000. Nor is there any money in the Federal Emergency Management Administration (FEMA) budget for the homeless.

-- One of the most successful public-private building and development programs has been the Urban Development Action Grant Program (UDAG). That was a $440 million program that raised in the neighborhood of $2 billion annually in private capital for

[illegible]

-- The Section 202 program for elderly housing would be cut from this year's 11,600 units to nothing -- zero.

-- The Administration's answer to all housing problems -- the housing voucher -- would be cut from 100,000 vouchers to 3,500 -- not even enough to meet the need in Washington, DC.

-- The modernization money which was beginning to restore much of our public housing stock would be drastically cut, leaving only enough for emergency repairs.

I've listed but a few of the housing programs which would be effectively ended by this shamefully inadequate budget request. Other proposals adversely affect the Community Development Block Grant program, Section 8 existing housing, public housing subsidy payments, FHA, VA, Ginny Mae, and still more.

Compare that scenario of cuts, rescissions and deprivation with the housing need which exists in this nation.

In March of 1984, the National Housing Conference completed its study of housing need in the nation, then and to the year 2000. The authors, using standard sources, estimated that the then-existing need for standard, affordable housing was in excess of 8 million units. They wrote that, in order to meet that need by the end of the century, as well as replacing stock lost to demolition and conversion, and meeting the demands created by new family formations, the housing industry should produce an average of 3.5 million units annually (rehabilitated as well as new). 15% to 20% of these units would require some kind of assistance beyond that brought by the tenant or homeowner.

It will be obvious, Mr. Chairman, that I am deeply concerned about this Administration's four year attack upon the nation's housing and community development programs. I appear before you today not as a supplicant nor as an apologist for the efforts made in past years by the federal government to assist millions of Americans to fulfill our fundamental dream -- to own one's own home. They have been wise investments in America's future.

Instead, I appear before you today as one American who is filled with frustration and a sense of outrage at what has happened over the past four years not only to the nation's housing and community development programs, but to scores of other humanitarian investments in America's greatest natural resource -- its people -- and to demand on their behalf a reversal of these short-sighted and inequitable policies.

But what about the huge deficits you say? Mr. Chairman and members of the Committee, the American people did not create these huge deficits, nor were they caused by the housing programs we demand be restored. These deficits were created by purposeful acts by this Congress at the behest of the Reagan Administration by reducing taxes (predominantly for large corporations and the well-to-do) by some $750 billion and increasing defense costs by over $250 billion. This, pure and simple, is our additional one trillion dollars added to the national debt since 1981. This was predictable and, as I will detail later, not an accidental result of the President's policies. Furthermore, even if you were to enact the President's 1986 budget as submitted, every reasonable indicator suggests that the budget request for FY 1987 would

[illegible] the anguish caused to millions of Americans this year, the deficit would still be at an all time high [illegible], and the Congress would once again be blamed for creation of the deficit and forced to make further cuts and eliminate [illegible] needed humanitarian programs. I don't believe any of you would wish to be painted into such a corner, particularly in an election year.

What then is the answer? First of all, I believe it would be helpful if it were recognized both how and why we have reached this seeming impasse between the continued huge deficits or elimination of needed human service programs. The "how" I have already dealt with -- huge tax cuts financed by borrowing and enormous increases in defense spending. The "why" requires a little more historical perspective.

It is no mystery, Mr. Chairman, that President Reagan has consistently stated throughout his public career that the Federal government has no responsibility for the social concerns of our society. To quote him from a comment he made in Chicago in 1982, "...the Federal government should only be responsible for national defense and crime" (sic).

Clearly, of our founding fathers, speaking by way of the Constitution, disagree.

Given his fundamental statement of policy and the President's equally strong disdain for budget deficits, doesn't it appear clear to all that the huge deficits, huge defense increases, and demand that there be no tax increase, are but part of a deliberate strategy to force the elimination of the many domestic programs that have helped so many Americans to improve

their ... s?

How then can the present impasse be broken? Virtually all economists agree that only by an increase in revenues will we be able to significantly reduce the deficit. It is my personal opinion that the American people are willing to make a sacrifice to deal with this problem, but only through a fair and equitable tax increase can this be accomplished -- it cannot be accomplished by destroying fifty years of programs for improving the quality of life for millions of Americans.

I have yet to find a single person with whom I have talked who did not express approval of a surtax reasonable on the corporate and personal income tax for a limited number of years, with the proviso that such surtax may be used only to retire the national debt and for no other purpose.

To attempt to reduce the deficit otherwise by continued massive cuts and elimination of domestic programs not only would further weaken our nation, but it would be a violation of your Constitutional duty to "...lay and collect taxes, duties, imposts and excises to <u>pay the debts</u> and provide for the common defense <u>and</u> the general welfare..." (Art. 1, Sec. 8).

Scores of legislative enactments and pronouncements have determined the elements of the general welfare to include "decent shelter, subsistence, medical care and education."

For some historical perspective on what might constitute a proper definition of "general welfare" vis-a-vis housing, may I quote an eminent American: "I believe that the Government must see that every family has a minimum standard of <u>decent shelter</u>

[illegible] ... the trickle-down theory works, but it works to provide indecent housing for those who get it on the last hand-down method of taking care of the lowest-income group at low rents, and it is inconsistent with that group getting good housing ... I believe that we cannot pour in all the assistance from the top, and that is all private industry can do, or be expected to do. I think we must attack it from the bottom..." (October 15, 1946, Modern Industry, Sen. Robert Taft, Republican from Ohio.)

It should be underscored that the Constitution does not give the Congress the option to provide for the common defense or the general welfare. They are equally mandated as a responsibility under the Constitution.

We are already beginning to reap the harvest of slashing the investments in America's future strength:

The Physician Task Force on Hunger in America just this week issued its report of a year-long study -- finding that hunger has reached "epidemic proportions" nationwide, leaving up to 20 million people hungry and vulnerable to illness. They found that, despite the economic recovery for some, "hunger is getting worse, not better." They find the cause of this widespread tragedy not a lack of food, but the result of the lingering effects of the recession and the cutbacks by the Reagan Administration in income and nutrition programs.

Is this the kind of America that is going to stand up to the Russians in terms of world power, and to the Japanese in terms of sophisticated technology? I think not.

A recent report commissioned by the Southern Governors

Conference has found widespread malnutrition, declining health care, and a serious rise in the infant mortality rate.

Furthermore, not unrelated to this mounting evidence, is the fact that too many Americans are now among the homeless. Most recently, Mr. Chairman, many incidents of homelessness among working families are beginning to emerge. There is no question in my mind, based upon my experience, that all of these tragedies are, as the Physician Task Force on Hunger enunciated, "traced in substantial measure to clear and conscious policies of the Federal Government."

We know this is the case with housing -- since 1981 the housing programs serving the nation's low- and moderate-income persons and the elderly and handicapped have been cut by some 67% -- far more than any other program. Now how can it be said that everyone is to be treated equitably in order to reduce the deficit when housing programs for the poor are to be suspended for two years, yet the housing subsidy for the well-to-do will reach $46 billion for this one year alone, comprised of tax deductions for mortgage interest and real property tax payments?

Meanwhile, the need for decent, affordable housing in America has not diminished, but continues to escalate, even now affecting millions of middle-class working Americans who can no longer buy or even rent adequate housing at affordable prices. We cannot permit this to continue.

We therefore ask this Congress to stop -- do not take the hasty actions again as you were stampeded into taking in 1981 and 1982. We ask you to carefully deliberate and to reflect into the result of the policies of this administration and the legislative

enactments of this [illegible]. The impact upon the lives of millions of Americans has been devastating, and the nation will suffer for it. In good conscience, you must reverse this short-sighted, inhumane policy. Not only is it your moral obligation to do so; I honestly believe it is your Constitutional duty to enact the appropriate legislation and provide the proper financing to insure the availability and affordability of housing necessary to meet the nation's needs.

Mr. Chairman, for better or for worse, the public sector, i.e., government, is the only mechanism by which a citizenry can intervene into the economic process when that process does not seem to work properly. I am a firm and fervid believer in the capitalistic system, in free enterprise, and in the general effeciency of the market process. But when problems arise from the market process itself, there is no way -- I repeat, no way -- of coping with those problems other than by government itself.

When industries pollute the air, our land and water, what redress in there other than government? When corporations sell products that contain risks of which the buyer cannot possibly be aware, whether these are chemical additives in foods, radial tires, or imperfectly tested perscription drugs, what guardian of the public interest can there be save government?

And if the private market cannot provide for every citizen the food, medical care, or shelter necessary to sustain life in this modern society, what agency but government can be expected to help?

This budget proposal not only denies the government the

resources to meet the legitimate needs of our citizens, it denies that the responsibility to meet those needs even exists.

Mr. Chairman and Members of the Committee, I urge you to look at the needs of our nation's cities, our elderly, the problems of rural America, the coming crises in educational costs, in health care and nutrition and in a dozen other areas. Ask yourselves then if the private sector will solve those problems, can solve those problems, or should even be asked to make the attempt? Is that not what governments exist to do?

This Committee must, I believe, weigh the long-range cost of our government's failure to meet its responsibilities against the short-run political cost of raising the revenues necessary to provide the programs required in modern civilized society.

In conclusion, I would like to repeat that the deficit is not the issue. The President has made it the issue and yet walks away from it, leaving the Congress no apparent alternative except further weakening of the Nation's social fabric by way of more devastating cuts in domestic programs.

Describing this action as "debtmail," Senator Charles McC. Mathias stated in a recent article that "...while the deficit is a clear and present danger to the Republic, we must make sure that in our efforts to eliminate or at least reduce it we do not create new threats to the Republic.

"One such threat, 'debtmail' is very much in the air. Alarm over the red ink is being used by those with narrow views of the role of government to force the majority to savage, starve and abandon important programs ... We must not succumb to debtmail while alternatives exist. Revenue levels are not fixed in stone.

In fact, many Americans are prepared to contribute more to that will restore the health of the economy and maintain a free and just society."

I maintain, Mr. Chairman, that the Constitutional role and duty of this Congress provides, even demands, what that alternative must be. It must be a total rejection of the President's policies as reflected in his budget and public pronouncements and a restoration of a minimal level of housing and other essential human needs to maintain a just, equitable and strong America.

Thank you, Mr. Chairman and Members of the Committee.

Senator HECHT. Our next witness, Ms. Denman.

STATEMENT OF DONNA DENMAN, EXECUTIVE DIRECTOR, GREENE METROPOLITAN HOUSING AUTHORITY, XENIA, OH, ON BEHALF OF NATIONAL LEASED HOUSING ASSOCIATION, ACCOMPANIED BY CHARLES L. EDSON, ESQ., LAW FIRM OF LANE & EDSON, COUNSEL, NATIONAL LEASED HOUSING ASSOCIATION

Ms. DENMAN. Yes. My name is Donna Denman. I am the executive director of the Greene Metropolitan Housing Authority in Xenia, OH.

I am president of the National Leased Housing Association, on whose behalf I am testifying today.

Accompanying me is Charles Edson, of the law firm of Lane & Edson, who is the counsel for our association.

Our association is made up of more than 750 members involved in rental housing. This includes housing authorities, mortgage bankers, bond financiers, private developers, management agents, and not-for-profit corporations.

We believe that this combination of public and private entities is precisely what is needed to produce housing in today's markets. We are proud that we are pioneers in this field.

We would like to add our congratulations to those of the others on your chairmanship.

Senator HECHT. Thank you very much.

Ms. DENMAN. We have had 14 years of happy association with your predecessors. We look forward to working with you.

Senator HECHT. So do I. Thank you.

Ms. DENMAN. I will not read the written testimony which has been given to you. We would like it to be included in the record.

Senator HECHT. It will be a matter of record.

Ms. DENMAN. Thank you.

I will try to summarize briefly our main points.

Senator HECHT. Thank you.

Ms. DENMAN. We have addressed three issues: the authorization level for housing for fiscal year 1986, the repeal of section 227 of the Housing and Rural Recovery Act of 1983, which will not allow owners of housing for the elderly and handicapped to prohibit pets, and, third, the proposed changes to the Internal Revenue Code, which will have drastic effects on rental housing.

PROPER AUTHORIZATION LEVEL

Regarding the proper authorization level, we believe that housing has taken more than its fair share of cuts in the last 5 fiscal years. The number of additional units being assisted has been cut by 55 percent. New budget authority has been cut by 68 percent. Units reserved for new construction and rehabilitation have been cut by 83 percent.

We have seen the savings realized by these cuts used for increases in defense spending. If we are serious about reducing the deficit, then all programs ought to be scrutinized for ways to realize savings. No program should be exempt.

The argument has been made that if there are cuts in the defense budget our national security will be in peril.

I happen to live next to Wright-Patterson Air Force Base. One of my friends who works there is a scientist working on the strategic defense initiative. He recently confided to me that the military budget could be cut 10 percent and it wouldn't even touch any of the program.

I was heartened to see that the Senate Budget Committee seems to have reached a similar conclusion. We applaud their resistance to further cuts in the Public Housing Program, in 202, and the Section 8 Existing Program, and that they are funding them at the fiscal 1985 level.

Speaking of the Existing Housing Program, we agree that in a time of budget stringency more utilization should be made of our existing housing stock. We have supported the Section 8 Existing Program. We believe that funding should be used for it rather than the Voucher Program.

We would like to see the Voucher Program remain a demonstration program and not be fully funded until it has been fully evaluated as to whether it is effective. We oppose the reduction of the section 8 administrative fee until the results of a reduced fee in the Voucher Program have been evaluated.

As an administrator of these programs on a daily basis, I would like to say that superior though the Section 8 Existing Program is to the Voucher Program, neither mechanism has the administrative practicality that the old Section 23 Leasing Program had.

Under the Section 23 Leased Program, a private owner would lease a unit to the housing authority, who would in turn lease it to an eligible family. Therefore, the private owner was dealing with a sophisticated lessee at all times. The tenant was leasing from a socially conscious landlord. Both private owners and tenants benefited from the program. It resulted in less paperwork and more efficiency.

If changes are to be made in the Section 8 Existing Program, we would urge that the attributes of the old Section 23 Program be

considered at the same time as the Voucher Program is being evaluated.

Regarding repeal of the section 227 of the Housing and Urban Rural Recovery Act of 1983, this section will not allow owners of housing designed for the elderly and handicapped to prohibit such pets as cats and dogs.

When this amendment was introduced, there were no hearings in either the House or the Senate. It was added during debate on the floor of the House, and it was added during a markup session in the Senate committee.

I think the full ramifications of this provision could not be considered until HUD published its regulations late last year.

The regulations opened a Pandora's box of problems: Relocating residents who are allergic to pets to nonpet areas, the need for national standards for pets—health standards, that is—the costs involved in having pets and who will pay for them, the practical difficulties of providing exercise space in complexes not designed with pets in mind.

We realize this is not the forum to take up HUD regulations, but we would like to submit our comments on these regulations for the record.

Senator HECHT. It will be a matter of record.

Ms. DENMAN. Thank you.

[The following information was subsequently furnished for the record:]

National Leased Housing Association

NLHA

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February 25, 1985

Office of General Counsel
Rules Docket Clerk
Room 10276
Department of Housing and Urban
Development
451 Seventh Street, SW
Washington, DC 20410

Re: Docket No. R-84-1152, FR 1936
Pet Ownership in Assisted Rental
Housing for the Elderly or
Handicapped

Dear Rules Docket Clerk:

These are the comments of the National Leased Housing Association regarding HUD's proposed rule on pet ownership in assisted rental housing for the elderly or handicapped.

The National Leased Housing Association represents more than 800 member organizations involved in federally insured and assisted rental housing. We are particularly concerned with the promulgation of this rule because over two-thirds of our members are either PHAs or private owners and managers directly involved in the day to day administration of the rental housing impacted by this proposed rule.

Background of Concern

Since the enactment of Section 227 of the Housing and Urban Rural Recovery Act of 1983, NLHA has made an intensive effort to ensure that the rule issued by HUD governing pet ownership in assisted rental housing is responsive not only to the needs and

rights of those elderly and handicapped who wish to own pets, but also to the needs and rights of those residents who do not. We have long argued that pet ownership in assisted projects is not simply a right but also a responsibility. The issue does not end with the congressional mandate that elderly and handicapped residents in assisted projects may own pets; this is only the beginning.

Pet ownership is a shared responsiblity. Pet owners are not simply responsible for the proper care of their pets, but also for the safety, health, and well-being of their neighbors as they are affected by the resident's pet. In turn, the owners and managers of a project, whether public or private, are not simply responsible for assuring that a resident's pet ownership is protected, they must also be responsive to the rights of all residents to a safe, healthy and comfortable environment. Finally, it is not simply HUD's responsibity to promulgate and enforce rules for pet ownership; the Department must also assess and ultimately bear responsibility for the effect these rules will have on the maintenance of decent, safe and sanitary housing for all elderly and handicapped residents. Without complete consideration of the tangible and intangible costs of such a rule as it affects all assisted residents, and the functioning of the assisted rental housing programs that serve them, this rule and HUD's assumption of responsibility in promulgating the rule, is incomplete.

The members of the National Leased Housing Association, while supportive of HUD's attempt to sort through this complex and emotional issue, believe that the proposed rule falls far short of what is required. It manages to be excessive in scope of application while its consideration of health, cost, safety and liability issues is either conflicting, incomplete or absent. These aspects of the rule are crucial, and must be taken into account as they affect the rights of all elderly and handicapped residents in assisted rental housing. The following comments will highlight those points in the proposed rule which we believe must be questioned and reworked before the rule becomes final.

I. Rule Should Only Apply To Subsidized Projects

Section 243.3(c) extends the definition of assisted housing beyond rent subsidy programs assisting elderly and handicapped families (Section 202, Section 8 and Section 236) to encompass mortgage insurance without subsidy under Sections 221(d)(3) and (d)(4) and 231 of the National Housing Act. We view this extension as unwarranted. The statute refers to "assisted" housing and as HUD itself acknowledges in the proposed rule, assisted housing traditionally refers to housing benefiting from a rent subsidy. This usage is clear and accepted. To expand it to include unsubsidized, HUD insured projects is not justified by

the terms of Section 227 or its legislative history, as set forth in the opinion of our counsel, Lane and Edson, P. C., in Appendix A hereto.

The legal questions aside, HUD's policy rationalization for the broad applicability of the rule is, if without merit, at least novel: as stated in the preamble to the proposed rule, HUD might exclude unassisted, insured housing "if Congress contemplated that compliance with its requirements would entail additional cost burdens on owners and managers which would be fairly imposed only if absorbed by additional subsidy" (Preamble 49 Federal Register, p. 50563). We find this rationale puzzling in that HUD acknowledges that "it is possible that the rule may cause increased costs for owners of rental housing projects" (Preamble, 49 Federal Register, p. 50567).

For HUD to state that Congress did not anticipate such costs is hardly a rationale for including these unsubsidized projects. As we will show, these costs will impact the quality of assisted rental housing for all elderly and handicapped residents, not just those owning pets. The proposed rule in its final form must recognize, assess and fairly allocate these costs. We believe that for subsidized projects, additional subsidy will be required. For unsubsidized projects, where costs will be comparable, and there is no opportunity for added subsidy, the rule should not apply. We urge HUD to restrict coverage of the rule to subsidized projects only.

II. Rule Should Only Apply to Tenants In Exclusively Elderly Projects

The proposed regulation "would apply to all residents of covered housing for the elderly or handicapped, even if the individual resident is not elderly or handicapped, or is not a member of an elderly or handicapped family" (Preamble, 49 Federal Register, p. 50564). This broadening of the nondiscrimination provisions of Section 227 is entirely unwarranted and in direct contradiction to the legislative history of the law as stated during floor debate in the House of Representatives between Representative Wylie and Representative Biaggi, the sponsor of the pet amendment (Congressional Record, July 12, 1983, pp. H5020 -H5021):

> Mr. WYLIE. Now, it only applies to the elderly or handicapped as I understand it. What about other persons?
> Mr. BIAGGI. Clearly there may be others who might be interested but the incidents that have developed over my time in the Congress have been most heart rending with relation to the elderly and handicapped. These pets mean more to those people in many cases than the rest of the community.

Mr. WYLIE. On page 3 of your amendment it says "is assisted under the U. S. Housing Act." If a majority of its tenants are elderly or handicapped. What about the other tenants in the unit?
Mr. BIAGGI. No, it does not apply to them. We are talking strictly about the elderly and the handicapped.
Mr. WYLIE. So, an elderly or handicapped in a development could have pets under the provision of this, but if they are not elderly or handicapped and live in the same housing development they might be precluded from having a pet?
Mr. BIAGGI. If there is an objection on the part of the landlord or owner of the property, yes, this legislation does not cover them.

Accordingly, the legislative history teaches that at the very least in a mixed tenant project only the elderly tenants would have the right to keep pets.

Admittedly, this leads to an anomalous situation of some tenants in a project being allowed to keep pets while others cannot. Note that in the statute [Section 227(d)(2)] the project assisted under the United States Housing Act or National Housing Act must be "designated for occupancy by elderly or handicapped families." From this language, it would seem that Congress intended that the pet requirements would <u>only apply to exclusively elderly or handicapped projects</u>. This is a sensible interpretation to prevent the situation above outlined. Accordingly, NLHA believes that the proposed regulations should only apply to projects exclusively for the elderly.

III. There Should Be Equal Tenant Consultation Provisions For Public & Private Owners

Section 243.22 details procedures for development of pet rules and tenant consultation concerning pet ownership project guidelines. PHAs facing a 10 percent FY'86 reduction in administrative fees cannot afford to undertake these actions without additional subsidy. HUD therefore excuses PHAs and Indian Housing Authorities (IHAs) from the stringent procedures for tenant consultation set forth by HUD for private owners and managers. Elimination of these requirements clearly lessens the cost of implementing the pet rules for PHAs and IHAs.

The question then arises as to how private owners and managers, constantly under pressure to reduce project costs and management fees, can be held responsible for absorbing the costs of these regulations. For this reason we strongly endorse the concept of allowing private owners and managers the flexibility allowed PHAs and IHAs in Section 942.25 in promulgating project guidelines. This would result in a streamlining of procedures and a reduction of costs.

IV. HUD Should Establish Limits on Number of Pets Per
Unit, Occupancy of Certain Types of Units and Pet Weight Limits

a. Dogs should be banned from highrises, or at the least limited to the bottom two floors.

Section 243.20(c)(1) states that project "pet rules may not limit the total number of pets allowed in the project." However, because Congress stipulated that pet rules may address "tenant density" [Section 227(b)(2)], the proposed regulation states "there may be some basis for permitting pet quotas" and requests comments describing factors that would "serve as a reasonable basis for a quota" (Preamble, 49 Federal Register, p. 50564). We believe project pet quotas should be considered in terms of overall project design and suitability for the presence of pets. Consideration of "tenant density," as stipulated in the statute, should include unit size, building size, layout and siting, and safety and health issues related to building and project design.

The initial problem faced by most PHAs, owners and managers in dealing with pets is that few projects for the elderly and handicapped were designed with pets in mind. Most were designed under the assumption that pets would not be present. Where animals were anticipated to assist the handicapped, these animals' proper housing and exercise were taken into account in the design. Although we do not ask that pets be banned from all buildings not designed to house them, we believe that HUD must recognize that now, after the fact, it will be necessary to modify project designs to alleviate shortcomings as they relate to the proper care of the pet and the health and safety of all tenants in a project.

Urban highrises present the most severe adaptation problems. These are the most dense, with restricted common corridors and limited circulation, emergency exits, and access to outdoors. Frequently these buildings have no outdoor green space, and are part of a dense urban matrix. What little on site space is available for tenant community use, such as community rooms, lobbies and terraces, is heavily trafficed and intensively used by all the tenants. Finding and designating exterior pet areas, if at all possible, will require fencing off of already severely limited common space. What is an owner or manager to tell a tenant garden group when half their green space, by dint of this regulation, must be converted to a dog run for one dog?

Pet smells, scratching, barking, fleas, and disposal of pet waste can become major annoyances to all tenants in such close environments. Unfortunately, these buildings, due to smallness of unit size, limited accessability to outdoors, and little or non-existent exterior space are the least suited for the proper care of happy, healthy pets. Unhappy, unhealthy pets are often directly destructive to their environments through scratching,

clawing, chewing and elimination of wastes in apartments or public space. It must be remembered that the elderly and handicapped are the least mobile of all tenants, and least equipped to overcome the problems related to pet care in these highrises.

Because dogs, the most active of pets, require outside exercise and a maximum of interior space, we believe they should be banned under Section 243.20(c)(2) from highrises.

If not banned, because of elevator usage, we believe dogs should be limited to the first two actual apartment floors in highrises to minimize elevator use and promote ease of access to outdoors. Many residents will be able to walk their animals down staircases in this situation, a preferable procedure.

In addition, in the event of emergency, particularly a fire, it is inevitable that some residents will seek to remove their pets from the building, despite evacuation rules which forbid such actions. Restricting four-legged animals to lower floors will minimize confusion and danger to all residents evacuating the building. It must be remembered that these are highrise buildings inhabited by elderly and handicapped, which in an emergency situation can present particularly difficult, life threatening situations. For this reason, we think that HUD should explicitly state that during any emergency requiring evacuation all pets are to remain in the apartments.

HUD should also realistically assess human nature, and realize that there will always be residents that will not comply with such a rule in an emergency. Banning dogs from highrises or limiting them to the two lowest apartment floors at a minimum will help alleviate this problem. For the same reason, consideration of a limitation of all uncaged pets, especially cats, to lower floors in highrises is appropriate.

b. HUD should limit dogs to 25 pounds.

Dogs present the most difficult problems, as potentially the largest household pets are also potentially the noisiest, dirtiest, most destructive and difficult to control. The size of pet dogs in all projects should not exceed 25 pounds at full maturity.

Snapping and biting of large dogs are particular physical and psychological threats. As stated by Doctor Alan M. Beck, ScD, School of Veterinary Medicine, University of Pennsylvania:

> The ownership of larger dogs has increased the frequency and severity of dog bites over the years, and now more people are killed every year by pet dogs than by contracting rabies from all rabid animals combined. Fatal dog bite is often

associated with particularly vulnerable victims, like the very young and the elderly.1

In addition to snapping and biting, scratching, clawing, chewing, fleas, and proper disposal of waste will be difficult enough to control, but at least through establishing this limit, elderly and handicapped owners will be better able to control their dogs. In addition, the lack of proper exercise spaces is less of a problem, though not resolved, by keeping dogs small.

Nor will other tenants be as threatened by small dogs as they pass through the public areas of projects. Whether Congress or HUD chooses to recognize this as a serious consideration, it is. We frankly doubt that it will be long after implementation of this rule that non-pet owners in projects will sue because they believe pets threaten not only their physical but psychological well being. Large dogs snapping, growling, territorial and difficult to control, are the most readily identifiable physical and psychological threat to other residents and should not be allowed in any project.

A HUD stipulated limitation on size also recognizes that efficiency and one-bedroom units in projects (approximately 530 square feet per apartment) are simply not suited for housing larger animals, including cats. Cats, though housebound, for the same practical reasons of space, care, and health should also be limited to 25 pounds at full maturity. Unfortunately, we see such limitations as a source of endless tenant dispute. For this reason we believe HUD should set a maximum size of 25 pounds for dogs and cats.

We recognize that Section 243.20(c)(2) allows the owner to impose a weight limitation on a project basis. However, in attempting to impose such limitation an owner could well face protracted struggle, legal and otherwise. For that reason this subsection should explicitly set forth the 25 pound limitation on a national basis.

Nor are efficiency and one bedroom apartments suited for housing multiple animals, and we agree with HUD that there should be a limitation of one dog or cat per unit, although we feel this limitation should be set by HUD in an effort to avoid controversy during development of individual project guidelines.

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1. Beck, A. M.: The Law and the Pet: A Reasonable Compromise. Proceedings of the Third Symposium of Pets in Society, The Social Importance of Pets in an Aging Society, April 1982, Toronto, Canada.

Per unit limitations are needed for all permissable pets. Studies have shown that individuals who own pets frequently will own them in multiples. Birds, hamsters, gerbils and other caged pets should be limited to two per apartment to guard against such occurances. Accordingly, we urge HUD to extend Section 243.20 (c)(1) to include these limitations as part of a HUD imposed national standard.

Aquariums present a special problem. Most residential plumbing is simply not designed to handle repeated accidental spills of rocks and gravel. Although fish are permissable, we feel that aquariums per se should be banned, and fishbowls should be limited to two gallons.

V. HUD Should Reimburse Owners and Managers for Extraordinary Costs Associated With Pet Presence in Projects

a. Background for determining costs.

What are the costs of allowing pet ownership in projects? Full implementation of the pet rule in all applicable projects will require drafting and printing of tenant guidelines, mail and hand delivery of guidelines to all tenants, consultation with tenants, review of written tenant suggestions, rewriting, reprinting, a second mail and hand delivery, meeting for final tenant approval, final printing or guidelines and writing and printing of a lease addendum -- all before one pet is admitted to the project. We estimate the cost for this procedure to be $350.00 per project. Revisions of pet rules resulting from disagreements or disputes once pets are admitted to a project will result in further changes and costs.

As noted earlier in our comments, PHAs and IHAs are excused from the responsibility and costs of these procedures, whereas private owners and managers are not. To ignore these costs to owners and managers is inexcusable. The complex implementation and ongoing administrative effort involved, if not supplemented through increased management fees, will result in a decrease of management services to all residents.

Section 243.20(b)(2) sets sanitary standards for the disposal of pet waste. Project pet rules "may" designate areas on the premises for pet exercise and the deposit of pet waste. Under an owner's agreement to provide decent, safe and sanitary housing we believe residents will demand, as will legal aid representatives and local zoning, health, or humane laws, proper exercise and sanitary areas. Dog runs are necessary, particularly in urban settings, because dog waste "contaminates soil,

inhibits grass and tree growth, and encourages rats and flies."2 Requirements for dog runs, according to Dr. Beck, include:

> The area should be completely enclosed by a fence at least four feet high. There should be a double gate entry so as to permit entry without animals escaping.
>
> The surface should be hard, non-porous, well maintained, and sloped to permit flushing and drainage. The area should be at least fifty feet away from areas used by children or from adjacent occupied buildings.
>
> Plastic or metal scoops and ample covered receptacles should be available to facilitate the collecting and disposing of fecal material.
>
> There should be an adequate maintenance program with consistent personel and funding.3

We estimate the costs for these minimal requirements to be at least $7,000.00 per project including construction materials, construction labor and an ongoing part time grounds person to see to the maintenance of the dog run. Again, how are these costs to be paid?

Section 243.20(b)(5) requires creation of non-pet areas in buildings for occupancy by tenants for whom the presence of a pet will contribute a serious health threat. We find this feature particularly objectionable.

First, Section 243.20(b)(5) clearly places the burden on the individual whose health is seriously threatened by the presence of pets. This individual must be displaced to a segregated section of a building while the pet, the source of the problem, retains right of access to nearly all the project including common halls, elevators and entry ways. This is clearly discriminatory toward the person with a serious health threat.

Second, we frankly believe that many tenants (perhaps justifiably) whose health is not seriously threatened, as stipulated under Section 243.26(a)(1), but who wish to escape pervasive allergies or other annoyances or fears associated with pet presence, will manage to obtain doctor certification requiring a move into a non-pet area.

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2. Beck, A. M.: Guidelines For Planning For Pets in Urban Areas. In Interrelations Between People and Pets. B. Fogle (ed.) Springfield: Charles C. Thomas, pp. 231-240, 1981.
3. Ibid.

As pets move in and out of projects and as tenants obtain health certifications on an ongoing basis, boundries of pet/non-pet areas will constantly shift, moves will be required and tenants displaced. Owners and managers will constantly have to spend time mediating disputes over moves and displacements.

All these concerns translate into cost. Conservatively estimated for a one hundred unit fully rented project where 15 tenants will own pets this will cost $400.00 to $1000.00 per move, depending on the region of the country, to create such areas (See Appendix B). Notably, the proposed rule does not require designated non-pet areas in PHA and IHA projects where additional subsidy would be required to pay for the administrative and management costs these moves will incur. For all other projects the non-pet areas are a requirement, with HUD making the unrealistic proposal that costs of these moves "shall be borne by the project and shall be considered a project expense" [Section 243.26(g)(4)].

Neither the pet security or the monthly pet fee is designed to cover this expense. The only recourse for FHA insured projects is to increase rents for <u>all</u> tenants due to this and other administrative and maintenance expenses resulting from pet ownership in projects. Owners of all Section 8 projects should also be allowed rent increases from HUD to cover these same costs, or HUD should directly reimburse them for the extraordinary costs involved in these moves.

b. Maintenance and damage costs must be fully covered by the pet security deposit; liability insurance should be mandatory.

Maintenance and damage costs, in individual apartments are also significant. Costs that our members have brought to our attention include damage to carpets, drapes, walls, woodwork, doors, plumbing (cat litter and rocks from aquariums), and fleas (and other vermin) and their extermination. Cleaning, replacement or extermination costs from one errant pet can mount into the hundreds of dollars. Southern and Western states are particularly bothered by flea infestations, which can spread from one apartment throughout a building, at enormous cost.

How are these substantial costs to be fairly allocated? We fully support the concept of a pet security deposit (Section 243.20(c)(3). As "fees and deposits are not a part of rent payable to the project" [Section 243.20(c)(3)], they should not be based on rent percentages, and as pet ownership has nothing to do with a person's financial ability to support a pet, the pet security deposit should be a set amount based on the pet's ability to damage. For uncaged animals (dogs and cats), the deposit should be set by HUD at a national minimum of $300.00. For permanently caged animals (birds, hamsters, fish, etc.) an appropriate amount should be assessed. As a further

safeguard, HUD should reimburse owners for damages in excess of the pet security deposit. The pet security deposit should be in addition to the non-pet security deposit charged for the unit, although linked to it, for administrative ease, in terms of refundability, interest payments if any, etc.

In addition, under Seotion 243.20(c)(3) pet owners should be required by HUD to carry, at their own expense, renter's insurance. We suggest a minimum of $5,000 contents and property damage and $100,000 liability coverage. We believe such coverage is essential and well worth the moderate cost in that it would protect the resident from accidents, damage, or liability caused by their pet in addition to covering them for loss or damages due to accidents, natural disaster, etc.

The issue of liability and the need to establish protections against it is particularly crucial to PHAs, owners and managers as on at least one recent occasion a court has entered judgement finding a landlord liable for a tenant's dog bites. Because the landlord maintained "a measure of control," he should have foreseen "a reasonably forseeable risk of injury to the third persons lawfully upon the leased premises" [Strunk v. Zoltanski, 479 N.Y.S. 2d 175 (July 3, 1984)]. This decision by the New York Court of Appeals is considered precedent making and likely to be followed by other state courts.

VI. Strictor National Guidelines are Necessary to Protect the Health of Project Tenants

Because local guidelines on licensing and innoculation can be lax or non-existent, we urge HUD to establish minimum standards to be adheared to by pet owners for the protection of all project residents under Section 243.20(b)(1).

We cite as our source the State of Maryland, Department of Health and Mental Hygiene guidelines developed for the Maryland Companion Pet Program for homes for the elderly (copy attached, Appendix C). We feel that they provide excellent guidance, as they were designed for homes inhabited exclusively by the elderly by the Maryland Division of Veterinary Medicine and the Maryland Division of Licensing and Certification with the Maryland Veterinary Association.

These guidelines require dogs to be annually vaccinated against canine diseases of distemper, hepatitis, leptospirosis, parainfluenza and parvovirus. Residential cats must be inoculated annually against the feline diseases of panleukopenia, rhinothracheitis, and calicivirus. Residential birds must be maintained on an approved chlortetracycline treatment regimen prior to approval and residence. Residential hamsters, gerbils, guinea pigs, etc., must be examined by a cooperating licensed veterinarian for health status. Because of variances at state

and local levels, these should be the national minimum, uniform guidelines for the innoculation of pets in federally assisted projects. Attached (Appendices D and E) are "Guidelines For Planning For Pets in Urban Areas" by Doctor Alan M. Beck of the University of Pennsylvania School of Veterinary Medicine and the Handbook of Diseases Transmitted From Dogs and Cats to Man, published by the California Veterinary Medical Association, which we believe provides valuable guidance and reinforces our position, that HUD must indicate as minimum the vaccination requirements stated above.

VII. Owner Should Not Be Responsible For Expenses of Pet Removal; Owner Should Have Right to Inspect on an Increased Basis

Under Section 243.45, in the event that the pet owner is "unwilling or unable to care for the pet," the project owner may contact the appropriate state or local authority (or designated agent) to remove and care for the pet. We believe that in addition to the responsible party listed in the pet registration, required under Section 243.20(b)(4)(iii), this same section should require the pet owner to designate the appropriate state or local authority (or designated agent of such an authority) authorized by the pet owner to remove the pet in the event that the responsible party cannot be contacted under Section 243.45(b).

In addition, "a project owner may insert a clause in the lease which permits the project owner to enter the premises, remove the pet, and arrange for pet care for no less than 30 days to protect the pet" [Section 243.34(b)]. Section 243.45(b) places financial responsibility for removal and care, if the owner is unable or unwilling to care for the pet, on the pet security deposit or to be paid from project expense. As such costs can easily be in excess of the pet security deposit when a private pet care facility is involved, in many instances project expense will ultimately be expected to absorb these costs, which may be in the hundreds of dollars. Section 243.45(b) should state that while the owner/manager must contact the responsible party or appropriate state or local authority (or designated agency), the cost of removal and care of the pet is the pet owner's if the pet security deposit proves insufficient, or is an extraordinary expense reimbursable from HUD. Following the thirty day period, if the pet owner is still unable or unwilling to care for the pet, it should become the responsibility of the designated agency to proceed further.

In addition, to ensure that conditions threatening to either the pet or the health and safety of the pet owner and other project residents are detected before a serious problem develops we recommend that the final rule contains provision for an increase in the apartment inspection schedule of pet owners. We

suggest that inspections occur at intervals of no less than four per year. Agreement to such inspection should be in the lease addendum and it should be at the expense of the pet owner.

Conclusion

We believe that HUD, in promulgating this rule must be concerned with the landlord's responsibility to provide "decent, safe and sanitary" housing for all residents. We must emphasize our belief that HUD shares responsibility to maintain this commitment through promulgation of the proposed rule. We feel we have outlined areas of particular concern that will affect PHAs, owners and managers ability to effectively safeguard decent, safe and sanitary housing conditions for their tenants.

Sincerely,

Donna Denman

Donna Denman
President

APPENDICES

APPENDIX A -- Counsel's Opinion Regarding Definition of Federally Subsidized Housing, Letter to Donna Denman, President of the National Leased Housing Association, from Charles L. Edson of Lane & Edson, P. C., Washington, D. C., February 25, 1985.

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• NOT ADMITTED IN D C

WRITER'S DIRECT DIAL NUMBER

February 25, 1985

Ms. Donna Denman
Greene Metropolitan Housing Authority
538 North Detroit Street
Xenia, OH 45386

Dear Ms. Denman:

In conjunction with the comments to be filed by the National Leased Housing Association on Pet Ownership in Assisted Rental Housing For The Elderly or Handicapped, you have asked our opinion as to whether these regulations should properly be applied to projects insured under Section 221(d)(3) or (4) or 231 of the National Housing Act as opposed to projects subsidized under that Act or the United States Housing Act of 1937. Section 227 of the Housing and Urban Rural-Recovery Act of 1983 refers to "federally assisted rental housing". It is our conclusion that in utilizing these words, Congress was specifically referring to subsidized housing and not insured housing for the following reasons.

First, in housing parlance "assisted housing" has traditionally meant subsidized housing. Invariably, non-subsidized rental projects with FHA insurance are referred to "insured housing." These distinctions are well known in the legislative branch. Accordingly, if Congress wished a different meaning applied to the word "assisted," presumably it would have made it clear in the legislative language or at least the legislative history.

Second, we have examined the legislative history and have found no support for the view that "assisted housing" should be construed to encompass insured housing. The Senate committee report (Report No. 98-142, p. 40-41) refers to "federally assisted housing". In the House, the amendment was added on the floor under the sponsorship of Rep. Biaggi of New York. In discussing the amendment, Cong. Biaggi stated:

> "My amendment seeks to prohibit by statute discrimination against millions of elderly and disabled persons living in federally funded housing who own pets." (Cong. Rec., July 12, 1983 at H5020) (Emphasis added)

Certainly, FHA insured housing has never been considered as "federally funded housing". Only subsidized housing fits that definition as insured housing is in no sense "funded" by the government. In colloquy, Rep. Johnson of Connecticut asked the sponsors some questions about the law.

> "It is my understanding that at this time policy with regard to pets in Federal housing for the elderly is determined by local housing authorities and the public boards that govern those authorities. Is that not the case?
>
> Mr. Biaggi: That is true."
> (Cong. Rec., July 12, 1983 at H5021)

Note that Mrs. Johnson indicated that the principal impact of the bill would be in housing administered by local agencies and public boards. Mr. Biaggi agreed.

Further in the colloquy, Mrs. Johnson, in pointing out that this matter is better handled locally, stated:

> "We are at this time in Connecticut involved now in a pilot project that will test out this policy in a number of different settings throughout the State in federally subsidized elderly housing.
> (Cong. Rec., July 12, 1983 at H5021)(Emphasis added)

Accordingly, it is obvious that both the sponsor of the amendment and its opponents were focusing on either public housing or federally subsidized government housing.

Therefore, we see no justification for HUD in Section 243.3 (c)(3)(ii) to include Section 221(d)(3)(market rate), Section 221(d)(4) and Section 231 housing within the definition of assisted housing.

Further, the conclusion presented in Part II of the NLHA comments that the regulation should only apply to elderly tenants in mixed income projects currently states Congressional intent as evidenced by the House colloquy reported therein.

Sincerely,

Charles L. Edson

APPENDIX B -- Regional Cost Estimates for Apartment Moves, Complied by the National Leased Housing Association, February 1985.

ATLANTA, GEORGIA

Movers Charge (21/2 hrs. @$28.00)	$ 70.00
Cleaning Service	40.00
Painting	150.00
Telephone (reconnect)	70.00
Utilities (deposit) - Gas	50.00
Electricity	75.00
Carpet	70.00
Exterminating	35.00
	$ 560.00

NASHVILLE, TENNESSEE

Movers Charge (21/2 hrs. @25.00)	$ 62.00
Cleaning Service	40.00
Painting	150.00
Telephone (reconnect)	52.00
Carpet Cleaning	60.00
Utilities (deposit)	-0-
Exterminating	35.00
	$ 399.00

BIRMINGHAM, ALABAMA

Movers Charge (21/2 hrs @$35.00)	$ 88.00
Cleaning Service	40.00
Painting	150.00
Drapery Cleaning (3 pairs)	25.00
Telephone (reconnect)	59.00
Carpet Cleaning	58.00
Electricity (deposit)	100.00
Exterminating	35.00
	$ 555.00

Pet rules and Lease information 15 hours at an average of $17.00	$ 255.00

Pavilion - 296 Units - Philadelphia, PA

Efficiency

Movers - $49.00 per hr.	147.00
Cleaning	40.00
Painting	140.00
Telephone	67.50
Total T/O cost per Unit	$ 394.50

One Bedroom

Movers	$ 196.00
Cleaning	50.00
Painting	160.00
Telephone	67.50
Total T/O cost per Unit	$ 473.50

Please find below an analysis of the cost to move an elderly person into a non pet area for residents occupying one bedroom units.

	Boston District	NY/NJ/CT
Moving	$175.00	$400.00
General Cleaning	60.00	75.00
Carpet Cleaning	120.00	150.00
Telephone (reconnect)	40.00	45.00
Painting	275.00	350.00
TOTAL	$670.00	$1,020.00

46-548 O—85——11

In a random sampling of five elderly buildings in the Region, Turn-over Costs ranged from $270 to $474 per unit with an average of $386.00.

The sample cost lists are as follows:

Center Square - 352 Units - Doylestown, PA

Movers Charges - 4 hrs. @ $45.00	*$ 180.00*
Cleaning Service - $45.00/Eff. $55.00/BR	*50.00*
Painting - $110.00/Eff. $120.00/BR	*115.00*
Telephone Transfer	*52.50*
Carpet Cleaning	*60.00*
Total Average T/O cost per Unit	*$ 457.50*

23 Units per floor @ $ 457.50 = $10,522.50 x 2

Allentown Townhouses - 159 Units - Allentown, PA

Movers Charges - 2 hrs. @ $51.00 per hr., two men	*$ 102.00*
Travel Time	*25.00*
Apartment Cleaning - 1 person $6.00 per hr.	*24.00*
Shampoo Carpeting - Buff-Away of PA	*50.00*
Painting - one coat - Charles Painting	*120.00*
Clean venetian blinds - outside contractor	*30.00*
Telephone - reconnect	*53.00*
Total T/O cost per Unit	*$ 404.50*

Sencit-Cumru - 201 Units - Shillington (Reading), PA

Cleaning - 8 hrs.	*$ 32.00*
Painting	*90.00*
Movers - 2 hrs. - 2 men	*95.00*
Telephone	*53.50*
Total T/O cost per Unit	*$ 270.50*

NEW ORLEANS, LOUISANA

Movers Charge (21/4 hrs. @$40.00)	$ 100.00
Cleaning Service	40.00
Painting (1 coat)	15.00
(2 coats)	20.00
Trim Work	5.00
Labor	88.00
Drapery Cleaning	30.00
Carpet Cleaning	150.00
Telephone (reconnect)	61.65
Electric Service	75.00
Exterminating	40.00
	$ 624.65

LOUISVILLE, KENTUCKY

Movers Charge (3 hrs. @41.00)	123.00
Cleaning Service (2 hrs. @25.00)	50.00
Painting (1 coat)	75.00
(2 coats)	95.00
Drapery Cleaning	48.00
Carpet Cleaning	50.00
Telephone (reconnect)	55.00
Exterminating	40.00
	$ 516.00

JACKSONVILLE, FLORIDA

Movers Charge (3 hrs @$42.00)	126.00
Cleaning Service (2 hrs. @22.50)	45.00
Painting (1 coat)	75.00
(2 coats)	125.00
Drapery Cleaning	40.00
Carpet Cleaning	65.00
Telephone (reconnect)	40.00
Exterminating	40.00
	$ 536.00

Pet rules and Lease information 15 hours at an average of $17.00	$ 255.00

VIRGINIA & WASHINGTON, DC

Moving and Storage	$350
Telephone Relocation	100
Utility Deposit	50
Change of Address Cards	5
Cable TV Relocation	30
Special Equipment Relocation (Oxygen, Medical, etc..)	100
Boxes & Packing Material	100
Hotels & Meals (3 nights)	300
Unit Maintenance	50
Painting	150
Cleaning	50
Shampoo/Wax	100
Misc. Sundry	100
	$1,435

APPENDIX C -- State of Maryland, Department of Health and Mental Hygiene, Guidelines for the Maryland Companion Pet Program, Demonstration Project, September 30, 1982.

State of Maryland

DEPARTMENT OF HEALTH AND MENTAL HYGIENE
201 WEST PRESTON STREET • BALTIMORE, MARYLAND 21201 • Area Code 301 • 383-

Harry Hughes Governor Charles R. Buck, Jr., Sc.D Secretary

THE MARYLAND COMPANION PET PROGRAM

Demonstration Project, September 30, 1982

The Division of Veterinary Medicine and the Division of Licensing and Certification have jointly developed the Maryland Companion Pet Program and are herein authorized, in conjunction with the Maryland Veterinary Association, to begin a demonstration of this project. The demonstration project will begin on or about September 30, 1982 and continue through December 15, 1982.

Authority for program management has been assigned to the Chief of the Division of Licensing and Certification, Mr. Harold Gordon. Questions regarding interpretation of guidelines may be directed to his designee, Mr. Peter Sansone, Division of Licensing and Certification, Maryland Department of Health and Mental Hygiene, 201 West Preston Street, Baltimore, Maryland 21201 (301) 383-2664).

The authority for establishing standards for animal health and related veterinary medical matters has been assigned to Dr. Joseph Horman Chief, Division of Veterinary Medicine, (301) 383-2678.

Cooperating members of the Maryland Veterinary Medical Association shall be responsible for carrying out the animal health procedures established for this program. Selection of veterinarians for a specific facility shall be made by the facility. Specific questions relative to veterinary medical procedures which cannot be resolved by the cooperating licensed veterinarian may be referred directly to the Division of Veterinary Medicine (301-383-2678).

As authority and responsibility for a facility's participation in the program falls directly to the Administrator, risks, benefits, and possible liability should be considered before acceptance of any pet.

Compliance with the Demonstration Project Guidelines are required to allow the entrance of any pet into a health care facility. These guidelines do not take precedence over local government codes or ordinances and in the case of conflict, the latter will apply.

Charles R. Buck
Charles R. Buck, Jr., Sc.D.

August 5, 1982
Date

GENERAL REQUIREMENTS - ALL PETS

1. Companion pets must not pose a threat or nuisance to the patients, staff, or visitors because of size, odor, sound, disposition or behavioral characteristics. Aggressive or unprovoked threatening behavior will mandate the pets immediate removal.

2. Animals which may be approved include: dogs, cats, birds, fish, hamsters, gerbils, guinea pigs, and rabbits. Written application may be made to the Division of Licensing and Certification for the acceptance of other species of animals. Prior approval by the Administrator for an exception shall accompany all applications. If approved, subsequent requirements may exceed the current guideline requirements.

3. All dogs and cats are prohibited from the facility while in estrus (heat).

4. Without exception, pets must be effectively controlled by leash, command, or cage.

5. Sanitary Constraints:

   (a) Pets are prohibited from the following areas:

      (1) food preparation, storage and serving areas with the exception of the participant resident's bedroom;

      (2) areas used for the cleaning or storage of human food utensils and dishes;

      (3) vehicles used for the transportation of prepared food;

      (4) employees' toilet, shower, and dressing rooms;

      (5) nursing stations, drug preparation areas, sterile and clean supply rooms;

      (6) linen storage areas;

      (7) areas where soiled or contaminated materials are stored.

   (b) All pet utensils, food, and equipment used for maintenar of pets are prohibited from patient food preparation anc serving areas. The exception shall be the participatinc resident's bedrooms.

   (c) Food handlers shall not be involved in animal care, feeding, or clean-up of animal food or waste.

(d) The Administrator is responsible for acceptable pet husbandry practices and may delegate specific duties to any other staff member except food handlers and staff involved in direct patient care. The areas of responsibility include:

(1) feeding and watering

(2) food cleanup;

(3) waste cleanup;

(4) exercising;

(5) grooming;

(6) bedding.

(e) Spilling or scattering of food and water shall not lessen the standard of housekeeping or contribute to an increase in vermin, or objectionable odor.

(f) Dogs and cats must be effectively housebroken and provisions shall be made for suitably disposing of their body wastes.

(g) Animal waste shall be disposed in a manner which prevents the material from becoming a community health or nuisance problem. Accepted methods include burial, disposal in sealed plastic bags, utilizing municipally approved trash removal systems or the sewage system for feces.

(h) Proper and frequent hand-washing shall be a consideration of all persons handling animals or animal products.

6. Animals found to be infested with external parasites (ticks, fleas, or lice) or which vomit or have diarrhea must be immediately removed from the premises and taken to the cooperating licensed veterinarian.

7. Wild animals such as turtles, reptiles, and carnivorous birds are not permitted except when specific written permission is provided by the Division of Licensing and Certification.

8. Any animal bites of humans shall be promptly reported by telephone to the local county health officer or to the Commissioner of Health when in Baltimore City. In the event the Department is closed, the local police shall be called and the bite reported. Bite wounds shall be promptly and thoroughly washed with soap and running water. Mild disinfectants may be applied to the wound. Residents who are bite victims must be seen within 24 hours by a physician. Non-residents shall be advised to be seen by a physician.

9. The local health department must be promptly notified by telephone of any pet which dies on the premises. Body disposal must comply with local ordinance. If the deceased is a bird, the body must be immediately taken to the cooperating licensed veterinarian. If not available, it shall be prepared and frozen in accordance with the attached procedures for submission of exotic birds specimens for testing. (See Appendix D)

10. The person or persons in charge of pets who are unable to demonstrate adequate control of a pet may at the discretion of the facility Administrator, or his designee or a health official, have their privilege for participation in this program suspended or revoked. The Division of Licensing and Certification shall be notified by the Administrator of the particulars within five (5) days. Decisions of Administrators to reject an animal are not subject to Licensing and Certification approval or review.

11. The rights of residents who do not wish to participate in the pet program must be first considered. Patients not wishing to be exposed to animals must have available a pet free area within the participating facility.

VISITING PETS

1. Visiting pets are defined as any animal brought into the facility for a period of less than four (4) hours. All "Visiting" pet owners shall "sign in" at the facility's "Pet Registration Roster" at the commencement and end of each visit. Copies of health records may be duplicated by the owner of "Visiting" pet if the records are needed for filing with additional health care facilities.

2. Visiting Dogs shall:

   a.) be annually vaccinated against canine diseases of distemper, hepatitis, leptospirosis, parainfluenza and parvovirus. Proof of such vaccinations shall be included on the Maryland Animal Health Certificate and this record kept on file at the facility. In addition, the file shall include a currently valid Rabies Vaccination Certificate for all dogs commencing at three (3) months of age. Only three (3) year type rabies vaccine will be utilized. Dogs over one (1) year of age shall be revaccinated every 36 months.

   b.) have a bi-annual fecal examination for internal parasites. Test results must be negative before the dog may visit the facility.

   c.) wear a flea and tick collar or follow the recommended procedures of the cooperating licensed veterinarian for the control of external parasites.

   d.) not be in estrus (heat)

e.) be licensed and wear an identification tag on the collar, chocker chain, or harness, stating the dog's name, the owner's name, address, and phone number. The Administrator shall promptly release all dog's licensing records to the owners for their use as needed.

f.) have a currently valid Maryland Animal Health Certificate completed by a cooperating licensed veterinarian before the animal's initial visit to the facility. The certificate must be updated bi-annually thereafter and each time the animal is examined due to health reasons.

g.) be immediately removed from the premises and taken to a cooperating licensed veterinarian if infested with internal or external parasites, vomit or have diarrhea, or show signs of a behavorial change or an infectious disease. NOTE: A newly completed Maryland Animal Health Certificate shall be required by the Administrator before the animal can return to the facility.

h.) be housebroken if more than four (4) months of age. Younger dogs may be admitted subject to the requirements of the Administrator.

3. Visiting Cats shall:

a.) be inoculated annually against the feline diseases of panleukopenia, rhinothracheitis, and calicivirus. Cats must be vaccinated against rabies at three (3) months of age and every twelve (12) months thereafter.

b.) wear a flea and tick collar during the flea season or follow the recommended procedures of the cooperating licensed veterinarian for the control of external parasites.

c.) have a currently valid Maryland Animal Health Certificate completed by a cooperating licensed veterinarian before the animal's initial visit to the facility. The certificate must be updated bi-annually thereafter and each time the animal is examined due to health reasons.

3. Visiting Cats (continued)

d.) be immediately removed from the premises and taken to a cooperating licensed veterinarian if infested with internal or external parasites, vomit or have diarrhea, or show signs of a behavorial change or an infectious disease. Note: A newly completed Maryland Animal Health Certificate shall be required by the Administrator before the animal can return to the facility.

e.) not be in estrus (heat).

f.) be provided with litter by their owner.

4. Visiting Birds

a.) shall be maintained on an approved chlortetracycline treatment regimen prior to approval and residence. The period of treatment varies between thirty (30) to forty-five (45) days and is species dependent. See Appendix C . Treatment Guidelines to Eliminate Latent Psittacosis Infection from Certain Caged Species, 12/20/81.

b.) that die or are suspected of having psittacosis shall be immediately taken to the cooperating licensed veterinarian. In the event the bird dies and the veterinarian is not available, the body shall be prepared and frozen in accordance with the attached Procedures for Submission of Exotic Bird Specimens for Testing, Appendix D.

5. Visiting Hamsters, Gerbils, Guinea Pigs, Domestic Rabbits, Laboratory Mice or Rats shall:

a.) be examined by a cooperating licensed veterinarian for health status. The appropriate portion of the Maryland Animal Health Certificate shall be completed for each animal or group of animals. Any animal which becomes sick or dies must be promptly taken to the cooperating licensed veterinarian.

RESIDENTIAL PETS

1. Residential pets are defined as any animal which resides at a facility in excess of four (4) hours during any calendar day and is owned by a staff member, patient, the facility, or a facility approved party. The financial responsibility for the residential animal's maintenance is the animal owner's responsibility.

2. All documentation of compliance will be maintained by the facilit Administrator for periodic review. The official health records shall include the rabies vaccination certificate and the Marylanc Animal Health Certificate, Appendix A and B. The Maryland Animal Health Certificate may be reproduced and distributed by tł facility to cooperating licensed veterinarians.

3. Residential animals must have a confinement area separate from the patients where they can be restricted when indicated. An area must be available for each participating unit and be approved by the Administrator.

4. Additional requirements for specific species:

   a.) Residential Dogs shall:

      1.) be annually vaccinated against canine diseases of distemper, hepatitis, leptospirosis, parainfluenza and parvovirus. Proof of such vaccinations shall be included on the Maryland Animal Health Certificate and this record kept on file at the facility. In addition, the file shall include a currently valid Rabies Vaccination Certificate for all dogs commencing at three (3) months of age. Only three (3) year type rabies vaccine will be utilized. Dogs over one (1) year of age shall be revaccinated every 36 months.

      2.) have an annual heartworm test commencing at one (1) year of age and will be treated if indicated.

      3.) have a bi-annual fecal examination for internal parasites. Test results must be negative before the dog's initial visit to the facility.

      4.) wear a flea and tick collar or follow the recommended procedures of the cooperating licensed veterinarian for controlling external parasites.

      5.) be neutered on or before six (6) months of age.

      6.) be licensed and wear an identification tag on collar, choker chain, or harness, stating the dog's name, the owner's name, address, and phone number. The Administrator shall promptly release all dog's licensing records to the owners for their use as needed.

      7.) have a currently valid Maryland Animal Health Certificate completed by a cooperating licensed veterinarian before the animal's initial visit to the facility. The certificate must be updated bi-annually thereafter and each time the animal is examined due to health reasons.

      8.) be immediately removed from the premises and taken to a cooperating licensed veterinarian if infested with internal or external parasites, vomit or have diarrhea, or show signs of a behavorial change or an infectious disease. NOTE: A newly completed Maryland Animal Health Certificate shall be required by the Administrator before the animal can return to the facility.

9.) be housebroken if more than four (4) months of age. Younger dogs may be admitted subject to the requirements of the Administrator.

10.) be fed in accordance with the interval and quantity recommended by the licensed cooperating veterinarian. Feeding and water bowls must be washed daily and stored separately from dishes and utensils used for human consumption.

11.) be provided fresh water daily and have 24-hour access to the water dish.

12.) be provided a suitable bedding area. Bedding must be cleaned or changed as needed. Dirty bedding will be processed or disposed as necessary.

13.) be permitted outside the facility only if under the supervision of a staff member, a responsible person, or within a fenced area.

14.) be regularly groomed and receive a bath whenever indicated.

5. Residential Cats shall:

a). be inoculated annually against the feline diseases of panleukopenia, rhinothracheitis, and calicivirus. Cats must be vaccinated against rabies at three (3) months of age and every twelve (12) months thereafter.

b). wear a flea and tick collar or follow the recommended procedures of the cooperating licensed veterinarian.

c). have a currently valid Maryland Animal Health Certificate completed by a cooperating licensed veterinarian before the animal's initial visit to the facility. The certificate must be updated bi-annually thereafter and each time the animal is examined due to health reasons.

d). be neutered if over six (6) months of age for females and if over nine (9) months of age for males prior to their acceptance into the facility.

e). be fed in accordance with the interval and the quantity recommended by the veterinarian. Feeding bowls will be washed daily and stored separately from utensils and dishes for human consumption. Cats will be fed dry food which will be stored in a covered container separately from the food intended for human consumption.

f). be provided fresh water daily and will have 24-hour access to the water dish.

g.) have 24-hour access to a litter box. Litter boxes will be cleaned at least every day or more often if necessary. Litter boxes will be maintained in sanitary condition and shall not be handled by pregnant women.

h.) not be permitted outside the facility except on leash.

i.) have suitable bedding. Bedding will be cleaned or disposed of as needed. Dirty bedding will be disposed or processed as may be necessary.

j.) be regularly groomed and bathed as necessary.

6. Residential Birds

a.) shall be maintained on an approved chlortetracycline treatment regimen prior to approval and residence. The period of treatment varies between thirty (30) to forty-five (45) days and is species dependent. (See Appendix C, Treatment Guidelines to Eliminate Latent Psittacosis Infection from Certain Caged Species, 12/20/81.)

b.) that die or are suspected of having psittacosis shall be immediately taken to the cooperating licensed veterinarian. In the event the bird dies and the veterinarian is not available, the body shall be prepared and frozen in accordance with the attached Procedures for Submission of Exotic Bird Specimens for Testing, See Appendix D.

7. Residential Hamsters, Gerbils, Guinea Pigs, Domestic Rabbits, Laboratory Mice or Rats shall:

a.) be examined by a cooperating licensed veterinarian for health status. The appropriate portion of the Maryland Animal Health Certificate shall be completed for each animal or group of animals. Any animal which becomes sick or dies must be promptly taken to the cooperating licensed veterinarian.

ENCLOSURES

Appendix

A. - Maryland Animal Health Certificate
B. - Rabies Vaccination Certificate
C. - Psittacosis Treatment Guidelines
D. - Procedures for Submission of Exotic Bird Specimens
E. - Sample of "Pet Registration Roster"

PS:bak

APPENDIX D -- Guidelines For Planning For Pets in Urban Areas in Interrelations Between People and Pets, Alan M. Beck, B. Fogle (ed.) Springfield: Charles C. Thomas, pp. 231-240, 1981.

CHAPTER 13

GUIDELINES FOR PLANNING FOR PETS IN URBAN AREAS

ALAN M. BECK

Ever since people began to live in villages, there has been a relationship between animals and society. Today, animals are so much a part of our lives they have a place in our homes, recreation, and work. Villages are now often cities, but animals, especially pets, are still very much a part of our lives.

Pet ownership, especially dog ownership per household. is much greater in rural areas than in small towns, suburbs, or city centers. In the United States, 67.2 percent of farm households own dogs, compared with 38.0 percent of the households in small towns, 41.1 percent in the suburbs, and 30.9 percent in the city centers (Purvis and Otto, 1976). However, because of the great concentration of people in small towns, suburbs, and cities, nearly 91 percent of the animals are in urbanized areas, and only 9.2 percent of the dog population reside on farms.

In 1975, the United States dog and cat population was estimated at forty-one and twenty-three million respectively or nearly 33 percent of all households owning dogs exclusively, 12 percent owning cats exclusively, and 10 percent owning both. In fact, dog-owning households average 1.42 dogs, and cat households average 1.58 (Wilbur, 1976). The dog-to-human ratio in the United States is about 1:5.9.

Dog populations in the United Kingdom are estimated to be at 5.83 million for a dog-to-human ratio of 1:9.4; France has 2.42 million dogs for a ratio of 1:6.3, and West Germany has 2.42 million dogs for a ratio of 1:25. Since the late 1960s there has been an increasing trend in all these countries (JACOPIS, 1975).

In addition to the sheer abundance of pets, there is other evidence that they are an important part of the cultures of United

States and Europe. There is a long-standing tradition for some hundreds of years that protects pets against abuse and neglect. There is a vast financial empire associated with the sale of pets, pet foods and accessories (Nowell, 1978), and animals, especially dogs. In the United States, ownership is significantly associated with financial income, house size, and other indices of social success of the owner (Purvis and Otto, 1975; Schneider, 1975).

Nevertheless, despite the pet population's abundance, economic importance, and legal and social place in our culture, there has been virtually no physical planning to accommodate pets in urban design. In fact, the only planning appears to be a trend to restrict or eliminate pets in cities. The majority of new housing developments in the United States are associated with pet-prohibiting regulations. Indeed, 12 percent of former dog owners surrendered their animals because they were no longer permitted to keep them (Wilbur, 1976). Try to imagine the consequences of not planning for the automobile: no roads, no parking garages, or no regulations.

It is possible, however, to accommodate pets in cities in ways that are humane and equitable for all through legislation, environmental management and design, population management, education, and research.

LEGISLATION

The planning for pets must include regulations and the commitment for enforcement of laws that protect people and animals. As already mentioned, most developed nations have laws that protect animals against cruelty, however, their enforcement is not usually consistent. Apart from the inherent right animals have to such protection, I believe that animal abuse has long been overlooked as an indicator, monitor, and even precursor to the antisocial behaviors people inflict on each other, including child abuse and neglect, spouse beating, rape, and homicide.

Planning for pets must also acknowledge that pets are aliens in human culture and their management is necessary to protect them and people. Legal guidelines should include restraint or direct supervision of the animal when on public property. Loose pet dogs account for the vast majority of dog bites (Beck, Loring,

and Lockwood, 1975; Feldmann and Carding, 1973) and in the United Kingdom are involved in 6 percent of all road accidents (Carding, 1969). In the United States, motor vehicle accidents account for 52.9 percent of the dogs and 16.3 percent of the cats presented at the Trauma Emergency Service of the University of Pennsylvania's Small Animal Hospital (Kolata, Kraut, and Johnston, 1974). Loose dogs in general enjoy significantly shorter life spans (Beck, 1973).

Another legal option is the licensing and identification of all dogs and perhaps cats. Licensing is a source of income, demographic data, and identification. Individual pet identification, like tattooing or inert implants as for cattle, would facilitate the return of strayed animals and better enforcement of pet abandonment and neglect. Licensing differentials could be used to encourage the keeping of sterilized pets and smaller dogs. Licensing programs could also be used to encourage vaccinations for rabies and distemper, and deworming.

Legal guidelines should address bite reporting, rabies surveillance, and guidelines for human rabies prophylaxis. Such guidelines should reflect local circumstances. In New York City, for instance, bites must be reported. However, they are rarely treated as a potential rabies exposure (Marr and Beck, 1976).

No legal guideline has received so much international recognition as New York City's canine waste law, the so-called "scoop law." Basically, New Yorkers are required to retrieve and dispose of their dogs' feces. Dog waste contaminates soil, inhibits grass and tree growth, and encourages rats and flies (Beck, 1973, 1979).

In addition, there are numerous studies establishing that dogs are frequently parasitized by *Toxocara canis* (Dubin, Segall, and Martindale, 1975; Burrows and Lillis, 1968; Anvik, Hague, and Rahaman, 1974), and failure to clean up after dogs seeds the environment with *Toxocara* eggs. Soil samples from varying locations in the United States have been from 10 percent (Dubin et al., 1975) to 20 percent (Dada and Lindquist, 1979) contaminated with *Toxocara* eggs, and in the United Kingdom samples from public places were 24.4 percent positive (Borg and Woodruff, 1973).

It is now widely recognized that the ingestion of embryonated *Toxocara* eggs can cause human illness, toxocariasis or visceral

larva migrans (Cypress and Glickman, 1976; Shantz and Glickman, 1978; Gundy, 1979). The disease appears to have two forms, an intestinal migration or ocular involvement. The symptoms of the generalized visceral larva migrans vary with site of migration and diagnosis is difficult. The ocular form, which is more easily diagnosed, has been reported in nineteen countries (Brown, 1974) and now an enzyme-linked immunosorbant assay (ELISA) test has been developed that can measure blood antibodies against *Toxocara*, thus permitting us to objectively test for visceral larva migrans in the general human population.

Using this technique, 4 out of 1,000 five year olds were found positive in New York City, and other investigators in Scotland found 2 percent of 200 blood donors, 22 percent of 144 patients with ocular lesions, and 4 percent of 28 patients with hay fever or asthma symptoms were positive for *Toxocara* (Girdwood et al., 1978). Using an older skin sensitivity test, 4.1 percent of 170 children were found positive in the United Kingdom (Borg and Woodruff, 1973).

The canine waste law can be seen to have a sound public health value. In addition, less feces on the streets may also mean less infection in pet dogs. It should be noted that freshly passed feces contains eggs not capable of infection. If, by chance, eggs are ingested, they will be passed out of dog or human before the larvae can escape into the body. They require three to six weeks in the environment to embryonate.

Despite the possibility of disease, the major impetus for New York's law was the aesthetic insult caused by dog waste on the streets and parks.

There are two other findings on the New York experience: the city is definitely cleaner, showing that a moderate commitment to enforcement and a social expectation for compliance can change a cultural pattern. And there is no evidence at all that New Yorkers surrendered significantly more animals to the shelters or adopted less from the shelters following the enactment of the canine waste law (Beck, 1979).

Other legal guidelines to be considered should address the numbers and kinds (species) of pets permitted based on humane, conservational, and health considerations.

ENVIRONMENT MANAGEMENT AND DESIGN

Although a "scooping tradition" will go a long way in alleviating the environmental impact of fecal waste, urban planning should include dog exercise areas. So-called "dog runs" could be so placed as to be utilized without being a nuisance to the neighborhood.

In 1976, before the canine waste law, we conducted a monitoring and questionnaire survey of a dog run located within a university complex (New York University) in the Greenwich Village area of Manhattan. As an indicator of use we marked with spray paint and counted every fecal deposit over a twenty-four hour period and found only twenty-six new deposits in the run although there were 175 new deposits on the immediately adjacent streets on all four sides. It appears that only 12.9 percent of the people who came to the street on which the run was located actually had their dogs use it.

Interviews with people who preferred their dogs to use areas outside the run elicited the following reasons. Users did not consistently clean up after their dogs, and new potential users were afraid their dogs would get sick. A similar health hazard was perceived from the frequent puddling of water. There was no shade for dogs or people. The most frequent reason for not being a user was fear of dog fights.

Many respondents suggested separate runs for smaller dogs. We found no sex difference between owners or their dogs among users and nonusers. Most users lived within two city blocks of the run; a single user walked one-half mile.

In another study, also before the citywide canine waste law, we monitored leashing and scooping in a small city park where leashing and scooping were required.

The park was traditionally a "dog run." After several weeks of monitoring we initiated a one-week period of intense enforcement of the leash law and scoop law. After the week we returned to the normal sporadic enforcement.

Two observations were apparent. First, compliance, even with sporadic enforcement was correlated with age, i.e. older people tended to have smaller dogs on leashes and tended to clean up after them more than younger people, who tended to let larger

dogs run free. Second, there was virtually no residual effect of intense enforcement, that is, the level of "noncompliance" returned to the pre-enforcement "background" within one-half day after we discontinued our intense effort. I suspect the success of the city wide scoop law is, in part, cultural inertia; the enforcement effort was greater, longer, and the media reinforced it. Now, even with less intense enforcement, the social milieu expects compliance. My point is that dog runs can be designed but require maintenance.

Basic guidelines for inner city dog runs should include the following. The area should be completely enclosed by a fence at least four-feet high. There should be a double gate entry so as to permit entry without animals escaping.

The surface should be hard, nonporous, well maintained, and sloped to permit flushing and drainage. The area should be at least fifty feet away from areas used by children or from adjacent occupied buildings. If occupied buildings are nearby, local wind currents should be considered.

Plastic or metal scoops and ample covered receptacles should be available to facilitate the collecting and disposing of fecal material. If the area is near occupied dwellings, it should not be used between 11:00 P.M. and 7:00 A.M. There should be an adequate maintenance program with consistent personnel and funding.

As an alternative to designated areas, urban planners may want to experiment with opening more remote portions of larger parks to be used by dog walkers or permit animals off leads for exercise before or after usual pedestrian activity, i.e. before 7 AM and after 10 PM.

With better than one-third of urban dwelling families owning dogs, it is time to plan the animal's need into urban design. New buildings could be designed with roof top or basement exercise areas, fitted with proper fencing, flooring, drainage, and trash receptacles. Old structures may also be suitable after careful evaluation of space and structural soundness of the roof. The point is there has been very little planning for pets other than some attempts to segregate them in housing or in parks.

A further environmental issue regarding animal waste is urban storm water runoff. Such runoff has been associated with

the killing of street trees (Pivone, 1969) and the closing of shellfish growing areas (Barnett, Esser, and Flatau, 1978). City designers considering a separate rather than a combined sewage system should be aware of the impact of urban animals (Geyer and Katz, 1965). Here again, scooping accompanied by appropriate disposal into the sanitary system would help alleviate the problem.

Another aspect of environmental planning is the area of land management. As a general rule loose pets are found in higher human density, lower socioeconomic urban areas, and are best managed by responsible ownership. Ownerless strays and feral dogs are more common in low human density urban areas, and such populations can be discouraged by the sealing of vacant buildings, clearing of lots, collection of abandoned automobiles, and clearing or fencing around garbage dumps or landfills.

POPULATION MANAGEMENT

Urban areas must plan animal control: facilities to capture, house, and euthanize unwanted pets and strays. As a general rule, about 20 percent of the owned dog population will pass through the sheltering facilities annually. Therefore, a city should estimate the anticipated yearly load and depending on length of minimum stay build a shelter of appropriate capacity. As a general rule, extensive holding periods are not cost-effective as a vast majority of captured pet animals are retrieved within the first forty-eight hours.

The field of animal control is rapidly becoming a necessity, and an appropriate commitment for appropriate facilities, funding, and trained staffing should be part of future pet-planning guidelines.

EDUCATION

Planning for pets should include educating the human population toward the reasons and regulations of animal management, responsible ownership, and encouraging the use of animal services such as humane shelters, veterinarians, and obedience trainers. Additionally, educational programs as part of the school curricu-

lum and the media may address such topics as the choice of a pet, pet abuse, or even how to avoid being bitten (Beck, 1976). Many of the problems now faced by municipalities related to poorly supervised or unwanted pets are the result of a poorly informed public.

RESEARCH

The guidelines I have proposed are not much more than extensions of common sense; however, we know relatively little about the motivations of pet ownership (*see* Chapter 5), the importance of pets to the lonely or elderly (*see* Chapter 8), or just what is the "carrying capacity" of the pet populations, that is, the kinds and numbers of pets that can be ecologically and socially maintained without adverse consequences. How many veterinary practitioners should there be for routine and emergency services? Are zoonoses control programs adequate? Are there circumstances and populations of people for whom pets are not appropriate? There must be a greater commitment to research.

Planning for pets, including what might appear to be restrictive legislation, must not be viewed as antianimal. Quite the contrary: having no guidelines and no regulations invites problems. If problems become severe, then the ultimate guideline—no pets allowed—becomes and is becoming the acceptable solution. Acceptable guidelines make it possible for pet ownership to continue in a fashion that benefits both animals and people.

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APPENDIX E -- Handbook of Diseases Transmitted From Dogs and Cats to Man, Published September 1982 by the California Veterinary Medical Association.

Addition to HANDBOOK OF DISEASES TRANSMITTED FROM DOGS AND CATS TO MAN Published September, 1982, by the California Veterinary Medical Association

LEUKEMIA VIRUS INFECTION

Many species of animals, including rodents, birds, monkeys, cattle, and cats, are infected with leukemia viruses. Although leukemia viruses from various species of animals are interrelated, each type of leukemia virus is distinct according to its host animal. Leukemia viruses from one species of animals do not naturally infect unrelated species of animals. Recently, a leukemia virus has been implicated as a cause of a rare type of cancer in people. The human virus is distantly related to leukemia viruses of animals, but has features that make it distinctly human in origin.

There has been some concern about human exposure to animal leukemia viruses. Feline leukemia virus, in particular, has received a great deal of attention and is shed in the saliva, feces, and urine of infected cats. Since many cats are infected and live in close proximity to man, the likelihood for human exposure is high, causing some concern because feline leukemia virus is known to infect human cells in test tubes and to cause cancer when injected in large amounts into newborn puppies. The potential health hazard of feline leukemia virus to man has been, therefore, extensively studied.

There is no direct evidence from any of these studies to suggest that feline leukemia virus is a health hazard to people. The virus does not appear to infect people following natural or laboratory type exposure. Epidemiologic studies have failed to show a relationship between exposure to cats and an increased incidence of cancer. Even studies directly comparing human disease incidence with known exposure to feline leukemia virus infected cats show the same conclusion.

Even though all studies have not been completed, there is no evidence to date that feline leukemia virus causes any disease in man. This is in keeping with the high degree of specificity that leukemia viruses exhibit towards their host animals. Until research indicates otherwise, feline leukemia virus infected cats should not be considered a health hazard to man.

(Contributed by Niels C. Pedersen, DVM, PhD, Professor, Department of Medicine, School of Veterinary Medicine, University of California, Davis, California. April, 1983.)

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INTRODUCTION

The purpose of this handbook is to provide a succinct source of essential information for use by the physician, veterinarian, public health nurse, and other health professionals concerned with diseases transmitted from the dog and cat to man Although there is much cooperation among the various members of the public health team, all too often there is a serious lack of common information and understanding among them. Hopefully, this handbook will eliminate some of this lack of information and misunderstanding; without this common ground of understanding, cooperation and complimentary concepts, the health of the human population, our shared primary area of concern, will suffer

In this handbook the term *zoonosis* will be defined as "an infection or infestation naturally transmitted from lower vertebrates to man and creating a state of disease in man." (American Public Health Association) Only the zoonoses transmitted from the dog and the cat to man are considered here The veterinarian and the physician alike should strongly discourage the harboring of semi-domestic and wild animals as pets. All forms of primates, raccoons, snakes, turtles and other members of the cat family, such as the ocelot, margay and jaguar, are not suitable pets, both from the standpoint of human health and from the humane treatment of these animals.

The association of man and the dog and cat is a long one The dog has served man as companion, hunter, guardian, pack animal, and even as a source of food The dog has served man well in the military services as tracker, patrol, sentry and in contraband detection duties. The cat, once revered as a god in ancient Egypt, has served man as a companion, hunter and protector of his stored grains from rodents Today the domestic dog and cat are finding new roles in the treatment of some mental and emotional conditions in man, especially in young children and in the aged It is because of this close association between man and his pets that the zoonotic potential for transmission of disease between them is so important to understand If we are to utilize the full benefits of our associations with the dog and cat, more emphasis on *preventive* medicine, both human and veterinary, is needed, and less stress on curing diseases in man and animals once they have occurred

Editor's Note: This booklet is reprinted as a continuation of our August issue on the human/companion animal bond With the increased interest in companion animals, we feel it is valuable information for you Additional copies of the booklet are available from CVMA/PR, 1024 Country Club Drive, Moraga, CA 94556, (415) 376-2020, for $2 00 a copy Prepayment required.

ANTHRAX

Etiologic Agent: *Bacillus anthracis*

Mode of Transmission: The dog and cat usually acquire anthrax infection by the consumption of contaminated meat, particularly beef, as cattle are the most commonly affected animals in the U.S. Mechanical transmission by flies (*Tabinadae*) also occurs, as does infection by consumption of contaminated water. Consumption of infected meat is, however, the primary source of infection for the dog and cat. The anthrax spore has a considerable degree of resistance in suitable soil and may persist as a source of infection for grazing animals for years; such animals may then act as a source for dogs and cats. Carnivores feeding on infected meat may also transmit the agent by biting man. Neither the dog nor the cat pose a serious threat as compared to the importance of other species in the potential transmission, however, of anthrax to man.

Clinical Picture in Man: Generally, human anthrax takes the cutaneous form via minor breaks in the skin. A local lesion results consisting of a malignant pustule, carbuncle, or charbon. Respiratory anthrax may also occur in man, as may intestinal anthrax. Meningitis due to anthrax has been reported in the U.S. Anthrax acquired from domestic pets usually takes the most common form, that of cutaneous anthrax.

Clinical Picture in Animals: Primarily dogs are affected by anthrax of the pharynx or tongue which results in swelling of the head and throat. Intestinal anthrax with severe gastrointestinal involvement also may occur in dogs. Both the dog and the cat are fairly resistant to anthrax.

Diagnosis: Cultural isolation on blood agar may be employed. Similar colonies to the B. anthracis colonies may be eliminated by their strong hemolytic activity, as *B. anthracis* is very weakly hemolytic. Inoculation into guinea pigs or mice with resultant finding of the *B. anthracis* organisms in the blood and tissues at death may also be used. A fluorescent antibody test is available.

Prevention: Infection in the dog and cat can be largely avoided by preventing them from consuming animals, such as cattle that have died of unknown causes, particularly in anthrax endemic areas. Meat and meat by-products fed to dogs and cats should come from known sources of anthrax free meat, not rendering plants.

STAPHYLOCCAL INFECTION

Etiologic Agent: *Staphylococcus aureus, coagulase positive*

Mode of Transmission: Transmission from infected animals to man is by direct contact.

Clinical Picture in Man: Clinical manifestations range from a single pustule or impetigo to septicemia and death. A lesion or lesions containing pus is the primary clinical finding. The organism will also form toxins in food that produce acute vomiting, nausea and diarrhea in man.

Clinical Picture in Animals: Staphyloccal infection in dogs is usually associated with an immune deficiency. The organism is common on animals and in the environment. When the skin is insulted, stressed or if the body lacks immunological protection, the organism then colonizes. A generalized picture of dermatitis is seen with pustules, scabs, scattered alopecia and usually pruritus. The infection can usually be controlled with proper therapy but returns in most cases. Dogs with diagnosed staph dermatitis should not be bred as the immunological deficiency is probably hereditary.

Diagnosis: By culture, isolation and identification.

Prevention: Adequate handwashing after handling animals with infections.

COCCIDIOSIS

Primarily a disease of young dogs and cats with diarrhea of variable severity. Various species of *Isospora* are responsible. It has been described in humans but is very rare.

LICE (Pediculosis):

Pediculus humanus capitis, P. humanus corporis and *Phthirius pubis* are human parasites. They have, on occasion, been found on dogs, but their presence there is accidental. Lice are species specific.

PSITTACOSIS (Parrot Fever, Ornithosis)

Etiological Agent: *Chlamydia psittaci*, avian strain.

Mode of Transmission. Readily transmitted from symptomatic or asymptomatic infected birds to man by aerosols of fecal material. This can occur in homes with infected birds, in aviaries, pigeon lofts, and in poultry processing plants. Laboratory infections do occur. Human to human transmission is rare, but may occur. The disease in man usually follows heavy exposure with some individuals more susceptible than others.

Clinical Picture in Man: An acute generalized infectious disease with fever, headache and early pneumonic involvement. A cough is initially absent or non-productive. Anorexia is extreme, constipation common, pulse usually slow in relation to temperature. Patients are lethargic. Human infections are usually mild, but may be severe. Death is rare. This disease is reportable.

Clinical Picture in Animals: Disease of parakeets, parrots, pigeons, turkeys, domestic fowl and other birds. It can be transmitted to other animals and man. Shows as upper respiratory infection in birds, nasal discharge, diarrhea, lethargy and weight loss. Some birds are asymptomatic.

Diagnosis: In humans, demonstration of a significant increase in complement fixing during convalescence. Suitably equipped labs may isolate the organism from sputum, antibodies, blood or post mortem tissues. Diagnosis in birds is by isolation of the organism from cloacal swabs or demonstration of intracytoplasmic inclusions in impression smears of diseased organs.

Prevention: Proper quarantine of imported birds and purchasing pet birds from disease-free establishments has reduced the incidence in pet birds. Reasons for sporadic outbreaks are not clear. Suspect birds are treated with tetracycline impregnated seed or mash. Epidemics in birds are handled by public health officials.

HEARTWORM INFECTION (Canine Filariasis)

Etiologic Agent: *Dirofilaria immitis*

Mode of Transmission: The immature form of the heartworm (microfilaria) is transmitted from infected canidae to non-infected canidae by mosquitoes. Once the infective microfilaria is injected into a new host, it matures to a 6- to 12-inch long adult in 70-80 days. The adults in canidae are found in the right ventricle and pulmonary artery. These adults mate and the female gives birth to living microfilaria. The total cycle requires 6 months to a year. Man becomes in-

volved inadvertently when infected mosquitoes bite humans. The microfilaria *will not* mature in man to the adult form.

Clinical Picture in Man: Radio-opaque coin type lung lesions are noted on radiographs. The lesions cause no apparent symptoms and have never been the original reason for the radiograph. Unfortunately, the coin lesions morphologically are indistinguishable from neoplasms and are diagnosed as heartworm lesions on histopath. There have been several human cases of patent infection showing microfilaremia.

Clinical Picture in Animals: In early and moderate heartworm disease, the only clinical sign is usually early tiring on exercise. In advanced infestations, disintegrating adult worms plug pulmonary artery and branches. Lungs exhibit large emboli, thrombi and pneumonia. Right heart is enlarged and worm-filled. Pulmonary artery is greatly dilated, its wall thickened, fibrotic with rugose folding. Clinical signs are then consistent with right heart failure.

Diagnosis: In dogs, a microscopic blood concentration test for diagnosis. Tests should be every six to twelve months in endemic areas. In man, biopsy of lung coin lesions is required.

Prevention: Dogs in endemic areas should be on heartworm preventive medication (diethylcarbamazine) from 30 days prior to onset of mosquito season, throughout the season and continued for two months after mosquito season ends.

CAMPYLOBACTER ENTERITIS

Etiologic Agent: *Campylobacter fetus* ss *jejuni* and *intestinalis*.

Mode of Transmission: A reported 30 percent of diarrheas are caused by bacteria. Of this, 4.3% and 7.6% have been reported to be caused by *Campylobacter sp.* Six modes of transmission suggested by current literature are: (1) direct contact with infected domestic animals, (2) ingestion of contaminated food (such as raw milk, and poultry, ingestion of contaminated water, (3) venereal transmission (proven in cattle, but not yet in humans), (4) placental transfer or (5) exposure at delivery, (6) and person-to-person spread by the fecal-oral route. What role, if any, infected food handlers have in disease transmission has not been established.

Clinical Picture in Man: Diarrhea has been the most common finding, often with cramping, abdominal pain and fever. The diarrhea is frequently watery and profuse, and blood in the stools is common in infected children. Vomiting is uncommon.

Clinical Picture in Animals: A watery diarrhea in puppies and kittens. *Campylobacter fetus* ss. *jejuni* is commonly found in swine and poultry feces.

Diagnosis: Until recently laboratory isolation of the organism has not been practical. Now the medical laboratory can culture and isolate the organism from a stool sample. Practitioners with patients having signs consistent with *Campylobacter sp.* should have stools cultured. Patients suspected of having *C. fetus* enteritis should be questioned as to whether they have puppies. Patients with puppies should be referred to a Veterinarian for culture.

Prevention: Good personal hygiene when handling pets to preclude fecal oral transmission. In addition, after handling raw poultry, hands and all equipment used in preparation should be thoroughly washed.

ENTEROBIASIS
(Pinworm Disease, Oxyuriasis)

Etiological Agent: *Enterobius vermicularis*, an intestinal roundworm infecting *only* man.

Mode of Transmission: The reservoir is man. Pinworms of animal hosts are not transmissible to man. In man, direct transfer of infective eggs by hand from anus to mouth of the same or new host, or indirectly through clothing, bedding, food, or other articles contaminated with eggs of the parasite. Eggs are infective a few hours after leaving the intestinal tract and survive only a few days. Retro - infection occurs when eggs hatch in the perianal region and the larvae migrate into the large intestine through the anus.

Clinical Picture in Man: Generally a benign intestinal disease with mild or non-specific symptoms. If severe, it may cause anal itching with disturbed sleep, irritability, and local irritation due to scratching. Most infections are asymptomatic.

Clinical Picture in Animals: Animals do not harbor human pinworms.

Diagnosis: Diagnosis in man is by applying transparent adhesive tape to the perianal region and examining it microscopically for eggs; the material is best obtained in the morning before bathing or defecation. Sometimes small, thread-like, white to red worms may be seen in the perianal area.

Prevention in Man: Prevention involves good personal hygiene. Daily bathing, with frequent change to clean underclothing, night clothes, and bed sheets, preferably after bathing. Good education in personal hygiene, particularly the washing of hands after defecation, and always before eating or preparing food; also to discourage habits of nail-biting and scratching base anal area.

STREPTOCOCCAL DISEASE (Streptococcal sore throat, scarlet fever, impetigo, erysipelas, puerperal fever)

Etiologic Agent: *Streptococcus pyogenes*, a Group A beta hemolytic streptococcal organism.

Mode of Transmission: Recent studies have shown family pets to be asymptomatic carriers of Group A streptococcus at a prevalance rate of approximately 3 percent. From the results of a limited study, this rate does not seem to vary among pets from families with or without streptococcal upper respiratory infection. Two sites in the dog are important in maintaining the cycle. Pets probably first acquire their initial tonsilar infection from infected humans. In the normal grooming pattern, licking the perianal area may transfer the infection to the anal sacs where licking of subsequent infected anal sacs passes infection back to the tonsilar area. Humans, particularly children, once initially cleared of infection may be reinfected from the infected pet thereby maintaining the cycle within a family.

Clinical Picture in Man: Human streptococcal disease caused by Group A (beta hemolytic) streptococci cause a variety of diseases. The more frequently encountered conditions are streptococcal sore throat, scarlet fever and streptococcal skin infections (impetigo or pyoderma). Other diseases include puerperal fever, septicemia, erysipelas, cellulitis, mastoiditis, otitis media, pneumonia and peritonitis. All clinical forms may occur in an endemic situation or in the course of a single outbreak.

Clinical Picture in Animals: 3 percent of pets are asymptomatic carriers. In pets that demonstrate clinical signs, they are consistent with those of tonsilitis and/or abscessed anal sacs.

Diagnosis: In families with recurring streptococcal infections, physicians should ask about family pets If the family has pet dogs, cats or caged rodents that are handled frequently and are in close contact with family members, they should be considered as a possible source of infection. The owners should be referred to a veterinarian where the pets will be examined and appropriate cultures taken Negative examinations and cultures may be just as important to a physician in that one source of infection may be excluded

Prevention. Infected pets should be treated by a veterinarian at the same time the entire family is treated to break the transmission cycle In addition, dogs with tonsilitis and anal sac infection should be treated by a veterinarian, and normal good hygiene practices enforced by humans handling the sick animals

BRUCELLOSIS

Etiologic Agent. *Brucella canis*

Mode of Transmission: Contact with the urine of dogs that are infected with the agent seems to be the natural form of transmission to man Man is apparently fairly resistant to *B canis* Infections resulting in clinical disease occur very rarely outside of the laboratory *B abortus* has been reported in the dog, but no transmission to man has been reported

Clinical Picture in Man: In man, fever, chills, posterior cervical, epitrochlear and axillary lymphadenopathy and splenomegaly have been observed

Clinical Picture in Animals: The primary sign in dogs is abortion in the third trimester without premonitory signs Generalized lymphandenitis occurs and a persistent bacteremia that may last an average of 18 months Male dogs show orchitis, epididymitis, and prostatitis

Diagnosis: Culture and serologic tests are used Most commonly, the agglutination test using *B canis* organisms as the antigen is the serologic test of choice There seems to be very little cross reaction with other species of *Brucella* In man, the bacteremia is intermittent, and treatment with broad spectrum antibiotics before a diagnosis is established often makes cultural proof futile

Prevention: Since the disease is uncommon, prevention should be directed at identifying infected animals in areas of high animal density such as breeding and laboratory research kennels

CAT SCRATCH DISEASE (Cat Scratch Fever)

Etiologic Agent. *Unknown (A viral etiology has been suggested but not yet proven)*

Mode of Transmission: Over 90% of cases are associated with either a bite or a scratch received from a cat However, any penetrating wound of the skin, such as thorns, splinters, fish hooks or superficial cuts, may also serve

Clinical Picture in Man: Regional lymphadenitis generally involving the axillary, cervical, femoral and inguinal nodes is characteristic of the condition Suppuration may occur in about 25% of cases and the nodes may remain enlarged and tender for from a few weeks to several months Most cases also show a scaly papule at the site of inoculation of the agent Some 70% of the cases show some fever, usually mild, but in some cases reaching 104°F Skin rashes have been reported, as have chills, malaise, nausea and generalized aching Complications are rare

Clinical Picture in Animals: Although the cat appears to play an important role in the transmission of the disease, natural infections in the cat have not been reported

Diagnosis: Clinical signs in conjunction with a history of a cat bite or scratch should make the disease suspect A skin test is available for man only, as cats do not react to it False negative tests may occur rarely, so that negative skin tests with strong clinical evidence and the elimination of similar diseases, such as tuberculosis, brucellosis, tularemia, lymphoma and Hodgkin's disease, should be retested with antigen from another source Most cases occur in late fall and early winter months

Prevention: Because of the unknown etiology of this disease, prevention is general and nonspecific Avoidance of cat scratches is common sense Thorough and immediate cleaning of those scratches and other minor superficial cuts received and often ignored, is suggested

CHAGAS' DISEASE (American Trypanosomiasis)

Etiologic Agent: *Trypanosoma cruzi*

Mode of Transmission. Requires a vector, the reduviid bug (*Panstrongylus megistus*) to transmit the disease agent, a trypanosome, from the reservoir host, the dog or cat The reduviid bug becomes infected in sucking blood from the infected dog or cat and transmits the infection to the next victim through its feces Other animals may act as a reservoir host as well The reduviid bug acts as a biological vector in Chagas' disease

Clinical Picture in Man: Initially, a painless, edematous swelling of the eyelids (Romana's sign) often limited to one eye, accompanied by hyperemia and conjunctivitis Fever, with peaks in the evening hours is accompanied by axillary and inguinal gland enlargement, increased pulse rate and hypotension In young children death may result due to cardiac insufficiency or fulminating meningo-encephalitis In the chronic form of the disease cardiovascular damage and electrocardiographic changes may be seen The cardiac damage is due to invasion of the heart by the trypanasomes, resulting in multiple minute ischemic infarcts and often hypertrophy of the right side of the heart Subclinical infection may occur

Clinical Picture in Animals Only occurs in very rare cases in young dogs and cats Dog and cat act as reservoir hosts and almost never show signs of disease

Diagnosis: Diagnosis is based on either immunologic methods or isolation of *T cruzi* from the blood or tissues It is only during febrile episodes that *T cruzi* is found in the peripheral blood Guinea pig inoculation with blood may be used Blood and bone marrow obtained by sternal or splenic puncture for isolation may be done if the peripheral blood is negative Xenodiagnosis has been frequently used as well This method allows trypanosome free laboratory bred reduviid bugs to feed on the patient If the trypanosomes are found in the gut of the reduviid bugs, the test is positive A complement fixation test is available and is reported to be both specific and practical It is important to differentiate Chagas' disease from leishmaniasis since the two diseases are endemic in similar areas of the world

Prevention: It is impractical to eliminate the wildlife hosts that act as reservoirs for Chagas' disease Likewise, it is impractical to attempt elimination of the dog and cat population around man The only practical prevention is to

eliminate the reduviid bugs from human habitats. This requires improved personal hygiene, environmental sanitation, and spraying with insecticides.

CUTANEOUS LARVAL MIGRANS (Creeping Eruption)

Etiologic Agent: *Ancylostoma braziliense*
A. caninum
A. duodenale
Necator americanus

Mode of Transmission: Infected dogs shed eggs in the feces which hatch within 48 to 72 hours in warm, moist soil, developing to the infective second stage larva within a week. Man is infected by exposing bare areas of skin to the larva, such as bare feet in children or the torso in contact with contaminated sand on a beach. Second stage larva are able to penetrate intact skin of man.

Clinical Picture in Man: Because man is an abnormal host, the larva cannot pierce the stratum germinativum and therefore migrate between the stratum germinativum and the stratum granulosum, leaving tortuous tunnels. Intense pruritus provokes scratching and secondary pyogenic infection of the skin often takes place.

Clinical Picture in Animals: These parasites are normally hookworms of the dog, although they may also occasionally infect the cat. Generally, only young dogs show clinical disease, as immunity or resistance seems to develop in the mature dog. Signs of infection in the young animal are related to blood loss. The gums become pale, weight loss occurs, and a failure to grow properly is evident. In heavy infections, tarry feces may be seen.

Diagnosis: In man, the tortuous superficial tunnels in areas of the skin exposed to sand or soil frequented by dogs, coupled with a reddish papule at the invasion site, should make one suspicious of this condition. In animals, a fecal flotation to demonstrate the presence of eggs is recommended. Fecal flotation is futile in man, as the parasites do not mature in man.

Prevention: Deworming the family pets is the best single method of prevention. This should be done both for the public health considerations and for the health of the animal infected. Children in endemic areas should not be allowed to go barefoot, particularly in areas frequented by dogs. Cats do not present as much of a problem as dogs, except under houses, because of their habit of burying the feces. In warmer climates the area under the house is used by plumbers for access to pipes, thereby exposing the torso to the larva; hence the condition "plumber's itch" in which the torso and upper arms are involved. Proper disposal of dog feces to prevent contamination of the soil is also suggested.

DERMATOMYCOSIS (Ringworm)

Etiologic Agent:	Frequency in Dogs and Cats
Microsporum canis	(common)
M. distortum	(common)
M. gallinae	(rare)
Trichophyton mentagrophytes	(occasional)
T. erinacei	(rare)
T. equinum	(rare)
T. simii	(rare)
T. verrucosum	(rare)

Mode of Transmission: Contact, either direct or indirect, is the mode of transmission. Direct contact with the lesions, which may be entirely subclinical in the animal, is by far the most common mode. Host factors, such as age or stress, co-existent disease, pregnancy, or overwork, which tend to debilitate, seem to increase transmissibility.

Clinical Picture in Man: In man, the areas of the body affected correspond with the areas of contact with the agent. In children, the face, neck and arms are primarily affected. In adults, the scalp, nails and arms seem to be more affected. *Microsporum* dermatophytes are normally restricted to areas of keratinized tissues, such as hair, nails, and stratum corneum. As the name ringworm suggests, lesions are often annular in appearance, sometimes with central healing, while marginal activity continues. Lesions vary more on the basis of body location than on the particular agent involved. In areas of hair, the individual hairs often break, leaving areas of hair loss. When nails are involved, irregular growth occurs; and when the interdigital spaces are involved, intense itching occurs.

Clinical Picture in Animals: In the dog and cat there frequently are no clinical signs. This is particularly true in cats. The first sign of possible dermatophyte infection in the dog or cat often comes when a family member is discovered as infected. Subsequent close examination and culture of the animal may then reveal the animal's infection. Generally, if lesions develop in the cat, it is in the head and neck region. In the dog, lesions are more commonly seen as circular alopecic areas surrounded by vesicles, pustules, erythema, or scaling.

Diagnosis: For some dermatophytes, such as *M. canis*, a Wood's lamp (ultraviolet) may be used. Under this illumination, a fluorescence is seen. However, not all dermatophytes will so react, such as *T. mentagrophytes*. Culture on Sabouraud's agar is very time consuming, but is the most sensitive method of diagnosis. Direct microscopic examination of affected hairs, after clearing with 10% KOH, may be used to detect hyphae or spores.

Prevention: Prevention of zoonotic transmission from the dog and cat to man is difficult because of the often subclinical nature of the disease in animals. If the diagnosis is first made in man, then the family pets should be examined by a veterinarian to determine if they are the possible source of the human cases. For those animals that develop lesions or are otherwise identified as infected, immediate treatment and prevention of contact with man, especially children, is suggested.

DEMODICOSIS (Demodectic Mange, Red Mange)

Etiological Agent: Demodex mites are normal inhabitants of dogs, cats and man. Each has its own species or variety and there is no transmission between the species. This condition does not affect humans and is included for that reason. Its appearance in dogs is only associated with a corresponding immune deficiency.

Mode of Transmission: It appears to be transmissible to nursing pups as well as to juveniles and adults. No known transmission to humans.

Clinical Picture in Man: None

Clinical Picture in Animals: Occurs only in immune deficient/incompetent dogs. Most frequent in dogs 3-5 months old, but seen in dogs of all ages. Appears as pruritic, alopeceic, red lesions usually around eyes or muzzle. Severe infestation may become systemic and prove fatal. Staphlococcal pyoderma is a very common opportunist that creates significant problems.

Diagnosis: Clinical appearance of disease and positive skin scrapings for demodectic mites Note As much as 75% of *normal* dogs may harbor demodex The diagnosis should be reserved for those with clinical signs

Prevention: All affected animals should be culled from any breeding program as the immune deficiency is apparently heritable

DIPYLIDIUM CANINUM INFECTION

Etiologic Agent. *Diphdium caninum* (Common tapeworm of dogs)

Mode of Transmission. Ingestion by man of the intermediate host, the dog flea, *Ctenocephalides canis* or the cat flea, *C felis* containing the larva (cysticercoids) of the agent Such ingestion is common in children, or in those fondling or grooming dogs and cats

Clinical Picture in Man: Many cases are asymptomatic In clinically recognized cases there are varying degrees of abdominal pain, diarrhea, passing of segments, irritability and pruritus

Clinical Picture in Animals: Generally the condition is asymptomatic in both the dog and the cat The most frequent sign in clinically recognized cases is diarrhea which usually develops within two or three days after infection and regresses in a few days Affected animals may drag their hindquarters along the ground, apparently to relieve the intense irritation from tapeworm segments being passed This behavior in dogs, however, may also be due to infected anal glands, which also causes intense pruritus

Diagnosis: Identification of gravid segments passed in the feces or clinging to the perianal region is the basis for diagnosis in both man and animals The segments are double pored, one on each side on the lateral margin The segments are very similar in appearance to cucumber seeds

Prevention. Since the ingestion of the intermediate host, the dog or cat flea, is necessary for transmission, the elimination of the flea by the use of flea powders, flea collars and/or bathing is recommended

FELINE PNEUMONITIS

Etiologic Agent: Chlamydiae (*Bedsonia* sp or Psittacosis/Lymphogranuloma venereum/Trachoma (PLT) group)

Mode of Transmission: Aerosol transmission from the cat to the conjunctiva of man has been reported Close contact with infected cats, particularly when the cat has severe rhinitis and sneezing, appears to be necessary for transmission to occur.

Clinical Picture in Man: Acute follicular kerato-conjunctivitis Subclinical infections may also occur Clinical disease is very rare

Clinical Picture in Animals: Infection in cats ranges from subclinical to severe, although rarely fatal in uncomplicated cases Cats may be afebrile, or show a fever of 104°F for a short period Increased lacrimation, conjunctivitis, mucopurulent nasal and ocular discharges, and sneezing are present A cough often develops after a few days of illness Anorexia, leading to severe weight loss, may also occur. Depression is usually not severe

Diagnosis: In man, isolation of the agent, fluorescent antibody or complement fixation may be attempted to assist in diagnosis. In the cat, the signs are usually sufficient to make a diagnosis

Prevention: Owners of cats with feline pneumonitis symptoms, especially if sneezing is frequent, should be cautioned to avoid close contact with the cat Once the active stage of sneezing and extensive lacrimation in the cat is over, such cautions may be lifted, at least as regards probable transmission of this agent from the cat to man is concerned

LEISHMANIASES

Etiologic Agent. *Leishmania donovani*
L. tropica
L brasiliensis

Mode of Transmission: The vector is the sandfly (Phlebotomus sp) which feeds on the infected dog, thereby ingesting macrophages containing the protozoan parasite The development of the flagella and multiplication of the parasite take place in the sandfly The parasites migrate to the area of the pharynx and mouth parts where they readily infect the next victim of the sandfly Different species of the sandfly transmit each of the three forms of the disease

Clinical Picture in Man: There are three forms of this disease visceral leishmaniasis or kala-azar, which is caused by *L donovani*, cutaneous leishmaniasis or Oriental sore, which is caused by *L tropica*, and American leishmaniasis or Espundia (Uta), which is caused by *L brasiliensis*. Visceral leishmaniasis is characterized by irregular fever of long duration, splenomegaly and hepatomegaly In untreated cases the outcome is often fatal Weakness, emaciation, diarrhea, and cough often occur Cutaneous leishmaniasis produces only a local lesion that lasts for six months to a year and disappears, leaving scars A small papule first appears which is followed by ulceration and enlargement American (South) leishmaniasis is similar to Oriental sore, but often metastatic lesions appear in the mucosa of the mouth and nose, and may lead to extensive tissue deterioration and death

Clinical Picture in Animals: While there have been reports of *L tropica* in the cat, the dog is the primary zoonotic host in leishmaniases The dog may harbor the leishmania in bone marrow, liver and spleen for long periods subclinically During this time, 40 to 50% of these dogs have many macrophages containing leishmania in their skin and are, therefore, capable of infecting sandflies that feed on them In the more advanced cases, the dog shows dermal lesions, emaciation, alopecia, keratitis and seborrhoea Fatality is common Oriental sore is less of a problem from the zoonotic viewpoint, than is kala-azar

Diagnosis: For definitive diagnosis the parasite should be demonstrated by culture of blood, or more commonly, bone marrow obtained by sternal puncture. Such material does not contain sufficient number of parasites for direct inspection Culture requires one to two weeks on N N N. or semi-solid blood agar Agglutination and precipitin tests may be used to aid in diagnosis

Prevention: Since leishmaniasis, in all three forms, requires the sandfly vector, prevention is achieved by either avoiding the sandfly bites or eradication of the sandfly

LEPTOSPIROSIS

Etiologic Agent: *Leptospira interrogans* (many serotypes)

Mode of Transmission: Transmission to man occurs when leptospira comes in contact with abraided skin, intact oral or nasal mucosa or the conjunctivae Water, either for consumption

or recreational purposes, often becomes contaminated by urine of infected animals, and serves as the vehicle of transmission. Direct contact with urine of infected animals is a common mode of transmission to man and other animals. Transmission via bite of dogs with urine contaminated mouths has also occurred. Cats are only rarely infected.

Clinical Picture In Man: A wide range of severity occurs in man, ranging from subclinical to an acute fatal disease. Clinical signs are generally non-specific and include fever, generalized muscle pain, nausea, vomiting, and anorexia. Jaundice, once thought to be necessary for a diagnosis of leptospirosis, is often absent.

Clinical Picture in Animals: Dogs may show a sudden onset with anorexia, vomiting, fever, and a mild conjunctivitis. In a few days hypothermia, depression, dypsnea, muscular soreness, oral mucosal hemorrhagic areas, and icterus may follow. Dehydration follows excessive urination and nephritis. Death occurs in up to 10% of the clinical cases.

Diagnosis: Three types of confirmation are used: cultural, serologic, and biologic. Silver stain or fluorescent antibody techniques may be used. Animal inoculation into guinea pigs, hamsters or gerbils in order to recover leptospiral organisms is more time consuming, but extremely sensitive. Serological tests include both macroscopic and microscopic agglutination; however, the microscopic agglutination is considered the most dependable.

Prevention: Those at high risk, such as kennelmen, breeders and dog groomers, should be cautioned to avoid urine contamination of their hands and aerosolization of dog urine. Proper handwashing techniques should also be stressed. These cautions would also apply to those cleaning up urine from partially housebroken dogs. Parents should be cautioned not to allow the family dog to enter the children's wading pools to avoid urine contamination of such pools.

HYDATID DISEASE

Etiologic Agent: *Echinococcus granulosus*
Echinococcus multilocularis

Mode of Transmission: Man becomes infected with Echinococcus ova by close contact with either infected dogs or their feces. The ova hatch in the duodenum, the larva enter the portal circulation and are carried to the capillary beds of the liver, lungs or other organs. Hydatid cysts develop in these and other organs resulting in the varied signs and pathogenicity associated with hydatid disease.

Clinical Picture in Man: Man may remain asymptomatic for long periods of time until a gradually enlarging cyst impinges upon the organ function of either the organ involved or nearby organs. Pressure necrosis may result in great organ damage and functional impairment before the diagnosis of hydatid disease is established. Rupture of cysts may result in multiple foci of hydatid cysts throughout the body, including the brain, or anaphylatic reaction to the cyst fluid. Hydatid cyst development in the brain may lead to mental deterioration, failing vision and intermittent headache. Cysts may also develop in long bones, pelvis, spine, or other similar locations leading to extensive osteoporosis.

Clinical Picture in Animals: Of his pets, only the dog serves as a natural form of transmission to man as the cat is highly resistant and does not normally feed on sheep viscera. Dogs normally become infected by the consumption of infected sheep viscera and carry the adult cestodes in their intestines without overt disease. Thus the dog is not affected by the disease, but carries it to man and serves as a source of infective ova for sheep and other grazing animals.

Diagnosis: Radiography is essential for diagnosis in organs such as the brain or lungs. Ultrasound or photoscanning after intravenous injection of colloidal radio-gold has also been used. A skin test, the Casoni intradermal test, is available, but has met with difficulty due to the crude antigen it employs. Purification of the antigen should help eliminate much of the problem with this method of diagnosis.

Prevention: Since sheep serve as the intermediate host of *Echinococcus* in the dog, prevention of sheep viscera consumption by dogs will break the sheep-dog-man cycle before infection reaches either the dog or man. This will also prevent additional sheep from becoming infected.

LYMPHOCYTIC CHORIOMENINGITIS

Etiologic Agent: Lymphocytic Choroiomeningitis virus (an Arenavirus)

Mode of Transmission: While this disease is a zoonotic one, it is very rare in dogs. Because of this rarity, it is of minor importance as a canine zoonosis. It is, however, much more common in other species, such as the mouse, guinea pig and hamster, which pose a much greater threat to man. Transmission from dog to man might occur as it does from mouse to man, via inhalation, conjunctiva, or by direct penetration of the skin. Lymphocytic Choriomeningitis has not been reported in the cat.

Clinical Picture in Man: Lymphocytic choriomeningitis has three forms in man: influenza-like, meningeal type, and the meningoencephalitic form. The initial attack may appear like influenza with fever, malaise, choryza, bronchitis and generalized aching. The meningeal type has a longer incubation time, (2 or more weeks) and appears as stiff neck, fever, headache, malaise and muscular pains. The third type, the meningoencephalitic form, is characterized by somnolence, anethesia of the skin, paralysis, and impaired deep reflexes. Death is rare.

Clinical Picture in Animals: Subclinical infections, although thought to occur, do so with no appreciable signs. Clinical signs are so minor that they are generally not noted.

Diagnosis: Virus isolation by inoculating intracerebrally LCM free mice with blood from the febrile stage has been recommended. Virus may sometimes be isolated from nasopharyngeal secretions or urine. Serological confirmation using neutralization or complement fixation techniques may also be done. Complement fixing antibody is indicative of recent infection as it declines rapidly by six months post infection. Neuralization antibody may persist for years.

Prevention: The dog and cat are of very minor importance as a source of LCM virus for man, although transmission is possible. Prevention should be directed to the rodent population, including hamsters, gerbils and mice, both domestic and wild. Contamination by bite, scratch, urine, saliva, feces and nasal secretions should be avoided from rodents. Careful application of rodenticides to reduce rodent populations around human habitats should reduce the exposure potential of man and his pets alike.

LISTERIOSIS

Etiologic Agent: *Listeria monocytogenes*

Mode of Transmission: There has been no

proven transmission of *Listeria* organisms from either the dog or cat to man. However, cases in which both the owner and pet developed listeriosis at the same time suggests that such transmission *may* be possible. Also, according to CDC (Oct 1968) "Listeriosis should be regarded as zoonosis. Man has been known to be afflicted with the disease after contacting dogs with listeriosis." However, *L. monocytogenes* is common in decaying vegetation and spoiled silage. Man and dog may both be exposed to such a similar source totally independent of each other. The actual mode of transmission, however, has yet to be shown.

Clinical Picture in Man: Clinical listeriosis in man may be manifested by abortion, conjunctivitis, endocarditis, meningoencephalitis, pyoderma, pneumonitis, septicemia and urethritis. Neonates may be infected *in utero* resulting in stillbirths. While sometimes a primary disease, listeriosis is more commonly a secondary complication of other stressing conditions such as alcoholism, neoplasia, cardiovascular disease and diabetes mellitus.

Clinical Picture in Animals: In the dog, listeriosis may cause abortion, perinatal infections or CNS signs that have, on occasion, been misdiagnosed as paralytic (dumb) rabies. It should be noted that *Listeria monocytogenes* is quite common in nature and, at times, may be a normal inhabitant of the gastrointestinal tract of man and other animals.

Diagnosis: Serologic tests are not reliable. Culture is difficult, sometimes requiring long incubation periods. Isolation should be attempted from spinal fluid or blood.

Prevention: Use care in handling aborted feti, placental tissues and fluids, including disposal away from other animals, proper handwashing and avoidance of aerosols from such material. Until more is known about the source of *L. monocytogenes*, for man prevention of human infections will remain difficult.

A Note on the Transmissibility of Systemic Mycoses Between Animals and Man.

A question that is commonly asked of veterinarians concerning systemic mycoses is the public health importance of a pet suffering from one of the systemic mycoses such as histoplasmosis, cryptococcosis, and coccidioidomycosis. Available evidence indicates that the transmission from animal to man is highly unlikely. Contact with sputum, urine, feces or other bodily excretions that may contain viable fungal cells may lead to superficial infections if the skin is not intact due to trauma. However, this is not common, and even if it did occur, such superficial infections very rarely lead to systemic involvement.

Blastomycosis may be the exception to the above rule. No soil contamination has been found, which seems to indicate that blastomycosis may not be a soil saprophyte as are the other systemic mycoses. If blastomyes is not found in the soil, the question then is: does it spread from animal to man rather than man and animal becoming infected from the soil? Frankly, we do not know. There have been a number of reports of man acquiring the infection from dogs, but the experts are still divided on the transmissibility question. Because of the possibility of transmission, although not confirmed, both the veterinarian and the physician should recommend caution in handling animals with systemic blastomycosis.

NORTH AMERICAN BLASTOMYCOSIS

Etiologic Agent: *Blastomyces dermatitidis*

Mode of Transmission: Unknown, no soil or vegetative source has been identified. Some reports of dog to man transmission have occurred, but expert opinion on such transmission is divided.

Clinical Picture in Man: Blastomycosis is a chronic disease of a granulmatous type that affects the skin and the internal organs. Infection of the skin as a primary foci is rare, but does occur. Primary pulmonary infection may range from minimal to extensive and simulates malignancy or tuberculosis. If hematogenous dissemination occurs, the subcutaneous tissues, skin and bones are most commonly affected. Lesions may also be found in the central nervous sytem, the prostate, liver and spleen. The intestines are not affected.

Clinical Picture in Animals: As in man, blastomycosis is a chronic disease in both the dog and the cat. The systemic form of the disease is more common than the cutaneous form. Depression, fever, anorexia leading to chronic weight loss, and non-productive dry coughs are common findings. Many nodules and abscesses of a granulomatous nature are distributed throughout the lungs. Dissemination by the hematogenous route leads to destruction of the peripheral lymph nodes, bones, and meninges.

Diagnosis: In cases exhibiting abscesses in the skin or nodules in the skin tissues and showing respiratory distress, blastomycosis should be suspected. Chest radiographs should reveal noncalcified nodules or consolidation of lung tissue with enlarged bronchial and mediastinal lymph nodes. A biopsy may be done on skin nodules or aspirated pus from abscesses. Under the microscope, *B. dermatitidis* appears as a single or budding thick, refractile walled cell 8 to 16 microns in diameter. A complement fixation test is also available. Culture is done on Sabouraud's glucose agar at room temperature or on blood agar at 37°C. Colonies will appear heaped, wrinkled and yeastlike.

Prevention: Although transmission between dog and man is controversial, caution in handling infected dogs is advised. In dogs with advanced cases showing pulmonary involvement or extensive cutaneous lesions, euthanasia should be considered.

PASTEURELLOSIS

Etiologic Agent: *Pasteurella Multocida*

Mode of Transmission: Bites of man by either the dog or cat. The organism is fairly often a mouth contaminant of the animal, and is introduced through the traumatized skin as a result of the bite.

Clinical Picture in Man: Erythemia and swelling around the site of the wound may persist for long periods. Abscesses, necrosis of the underlying and surrounding tissue and osteomyelitis may also occur in severe cases. Lymphangitis, lymphadenitis and non-specific symptoms such as fever, headache, chills and insomnia may also occur. Seldom seen in children, generally the condition develops only in the adult bite victim.

Clinical Picture in Animals: Since the organism is mainly a mouth contaminant, it seldom causes a clinical disease in either the dog or the cat. It may possibly be an upper respiratory tract inhabitant in animals. If one animal bites another, a similar clinical picture to man may result, but this development in the bitten animal does not have zoonotic implications.

Diagnosis: Culture and isolation of the agent should be attempted in man, dog and cat.

Prevention: Prompt and thorough washing of all bite wounds to remove the introduced organisms is the only real preventive measure of any practical use.

PLAGUE

Etiologic Agent: *Yersinia pestis* (*Pasturella pestis*)

Mode of Transmission: Plague is generally transmitted by flea bites from infected, blocked (intestinal blockage in the flea due to *Y. Pestis* multiplication) fleas. While the rat flea is most commonly infected, since rodents are the primary hosts of plague, the dog and cat flea (*Ctenocephalides canis or C. felis*) also may become infected following feeding on an infected dog or cat, and subsequent feeding on a human host may transmit the agent. Mechanical infection, due to contamination with purulent discharges from abscesses in infected dogs and cats, may also occur. Both dogs and cats consuming infected rodents may harbor infective *Y. pestis* organisms in their throats for ten or more days. However, it must be pointed out that the dog and cat are not important, compared with other wild species, in the transmission of plague to man, but transmission may occur.

Clinical Picture in Man: Three forms of plague in man are recognized: bubonic, septicemic and pneumonic. The infective dose is exceedingly small. Pyrexia, diarrhea, nausea, slurred speech, mental confusion, staggering gait, generalized aching, tachycardia, coughing, enlarged lymph nodes (most commonly femoral, inguinal, and axillary nodes), myocardial failure, coma and death may occur in untreated patients. The specific combination of signs and symptoms are associated with the particular form of plague involved.

Clinical Picture in Animals: Both the dog and cat may be infected either by flea bites or oral consumption of infected rodents. Cats may develop large fluctuant abscesses. Both dogs and cats show bacteremia, although it is transient in the dog. In the cat, the disease is often fatal, while in the dog it is usually a mild, self-limiting febrile disease.

Diagnosis: Three types of laboratory diagnostic aids may be employed: culture, biologic, and serologic. Culture is difficult, but may be accomplished in most hospital laboratories. Rapid serologic tests are available including fluorescent antibody and passive hemagglutination. Animal inoculation in guinea pigs or white mice may also be used.

Prevention: Since dogs and cats are infected via consumption of infected small mammals such as rats, prevention of this activity of pets is recommended. Flea collars, powders and sprays to keep pets flea free are also suggested.

RABIES

Etiologic Agent: Rabies virus

Mode of Transmission: Bite wounds are the most common means of transmission of this much feared and misunderstood disease. Wounds, such as open abrasions or open lacerations, are potential means of viral entrance if the saliva from a rabid dog or cat contains virus and gains entrance into the wound. The virus is incapable of penetrating intact skin. In order for the saliva to contain the rabies virus, the dog must be in the terminal stages of the disease. Symptoms of rabies will occur usually within 3-5 days, sometimes as long as 6 days after the virus first appears in the saliva. This is the basis of the ten day quarantine period following dog and cat bites. If the virus was present in the saliva of the biting animal, then signs will occur within this ten day period. If signs do not appear, then the dog or cat was incapable of transmitting rabies. *This may not be true in other species.*

Clinical Picture in Man: Until recently, rabies in man was thought to be universally fatal. However, there was a recovery in an Ohio boy in 1972 which was well documented. There have been other reports of clinical recovery from rabies in the literature, but they were doubtful due to their lack of documentation and careful epidemiological study. In man and animals, rabies virus ascends the nerves towards the brain. Once in the brain, the virus then spreads outwardly to the salivary glands and nerve trunks. Early signs in man are headache, nervousness, malaise and a minor temperature elevation of 1-3 degrees F. Signs related to excessive stimulation of the sympathetic nervous system are evident: increased perspiration, apprehension and anxiety, lacrimation and dilation of the pupils and possibly insomnia. Excessive salivation, often described as foamy, is present. This, coupled with the patient's inability to swallow, due to paralysis of the muscles of deglutination, creates the foamy appearance. Paralysis may occur and shorten the excitation phase. The patient varies between periods of relaxation and convulsive seizures. Death usually occurs as the disease progresses to generalized paralysis.

Clinical Picture in Animals: Two clinical forms of rabies are seen in the dog — the paralytic or dumb form, and the furious form. The paralytic form is characterized by the paralysis of the muscles of the throat and masseter region. The animal is unable to swallow and stands or sits with the mouth hanging open, often leading the owner to believe that a bone is stuck in the animal's throat. These dogs are unable to close their jaws and, therefore, are unable to bite, however, owners frequently put their hands in the mouth of the animal attempting to find a bone or other foreign object, thereby exposing themselves to the virus if they have open wounds on the hands. In the furious form, animals will stand with an anxious expression and attack furiously at people, moving objects, fences and other animals. These animals are able to inflict serious bite wounds and provide massive exposure to the virus. Death follows within 5 days usually, sometimes longer.

Diagnosis: Recommended techniques used today in the diagnosis of rabies primarily consist of the fluorescent antibody method and the intracerebral inoculation of newborn mice. The Negri body test is no longer recommended as it is not as sensitive as early as the fluorescent antibody test. It is important to cool the animal's brain as quickly as possible after death, but not freeze it, and take it to a diagnostic laboratory as soon as possible. If the animal is to be euthanized as a rabies suspect following human exposure, do not allow it to be shot in the head, since this damages the brain and makes it unsuitable for diagnosis. The recommended techniques for euthanasia are anesthetic overdose or decompression. It is important to note that it is not necessary to wait for death of the biting animal when using the fluorescent antibody test. In strays or wild animals, euthanize and send the brain to the diagnostic laboratory as quickly as possible, especially in unprovoked attacks of animals on man.

Prevention: There are two approaches to the prevention of rabies. First is to inoculate the dog and cat population with rabies vaccine. This has proved to be an effective means of reducing the exposure potential of man to rabies from dogs

to cats. In conjunction with this vaccination program, it is essential to have a strong local ordinance, and enforce it, preventing the free running of both stray dogs and cats. The second approach to rabies control is to inoculate people in high risk groups with pre-exposure prophylactic rabies vaccine of duck embryo origin. This approach may be used alone when it is impossible, or impractical to vaccinate all the animals that veterinarians, lab workers, or humane society shelter personnel, etc., come in contact with. It may also be used in conjunction with the rabies inoculation program and animal control program as outlined above.

SALMONELLOSIS

Etiologic Agent: *Salmonella* sp (many serotypes)

Mode of Transmission: Direct or indirect fecal contamination of food or water that may be ingested by man. Direct contact with feces due to poor personal hygiene is also possible and most common in children handling infected pets.

Clinical Picture in Man: There are three types of clinical expressions of salmonellosis in man: the gastro-enteric form, septicemic form, and localized infections such as abscesses and arthritis. The gastro-enteric form has a short course, short incubation time, and a short carrier state resulting. Fever, abdominal pain, and diarrhea are seen in varying intensities. Localized infections such as abscesses, empyema, arthritis, meningitis, osteomyelitis, orchitis and cholecystitis may also occur. The septicemic form is most serious in the debilitated host. The most common form that is transmitted from dog or cat, however, is the gastro-enteric form.

Clinical Picture in Animals: In the dog and cat acute gastro-enteritis occurs, particularly in the young animal. Diarrhea, vomiting and resultant dehydration vary in intensity depending on the individual animal and the dose of *Salmonella* organisms ingested. Mild cases may have only intermittent diarrhea and may, therefore, not come to the attention of the veterinarian. Transient and chronic carriers are an important source of *Salmonella* of animal origin to man.

Diagnosis: Culture of stool samples is the best method of diagnosis. Single rectal swabs should *not* be used as they often result in false negative reports. A better technique is to repeat at intervals if rectal swabs are negative.

Prevention: Adequate control to ensure the feeding of *Salmonella* free pet foods would greatly reduce the infection rate of animals which then go on to the chronic carrier state and serve as a source of infection for man. Proper personal hygiene after handling pets, especially young animals, is essential. Prompt veterinary attention for animals with diarrhea is recommended. Veterinarians should consider the possibility of chronic salmonellosis in such animals and culture and treat them accordingly.

SCABIES

Etiologic Agent: *Sarcoptes scabiei var. canis*

Mode of Transmission: Close contact with dogs suffering from scabies, particularly when a new puppy comes into the household, due to the close and constant fondling it receives, seems to be a constant factor reported. Cats may also transmit the mite in a similar fashion to man.

Clinical Picture in Man: Eruptions of a papular, vesicular, or urticarial type are seen. Excoriation is frequent. These lesions are seen most commonly on the arm, lower chest, thighs and abdomen, but may also be seen in other areas. Frequently areas where clothing fits tightly are more severely involved, such as the belt line. Often there is a history of animal's sharing man's bed. In children, the face is often involved because of the "nuzzling" children give their pets. The pathogenesis of the condition is unknown. Burrows are not found, as the mite does not reproduce in mankind, it appears that some degree of sensitization to the mite or its by-products occurs.

Clinical Picture in Animals: Signs in the dog are based on the intense pruritus the mite elicits as it burrows in the dog's skin. The dog will scratch and rub affected areas until the hair and skin have been rubbed off in an attempt to relieve this intense itching. The skin becomes dry, thickened, and scaly in affected areas, particularly the tips of the ears, the muzzle, neck, and abdomen. Secondary bacterial infections of the excoriated areas may also occur. The cat may also develop sarcoptic mange.

Diagnosis: In man, diagnosis is based on the fairly characteristic distribution of lesions, their appearance, and a history on contact with either an infected dog or cat. In the dog or cat diagnosis is based on a deep skin scraping onto a slide containing oil, microscopic examination, and finding the mite. The best results in finding the mite in dogs seem to be achieved by use of the tip of the ear for skin scraping.

Prevention: In animals, sarcoptic mange can be largely avoided by maintaining a good nutritional state. However, if the animal does develop the condition, it is essential for people to avoid close contact with the affected animal until the problem is eliminated. Treatment, while not difficult, may take a few weeks. During this time only one person should handle and treat the animal, using particular care to wash promptly and properly after handling the animal.

SPOROTRICHOSIS

Etiologic Agent: *Sporothrix schenckii (Sporotrichum schenkii)*

Mode of Transmission: Skin trauma provides entrance for the agent. Dog bites have been reported resulting in sporotrichosis in man. While the dog has been reported as responsible for infection in man, other investigators question the dog's role. A dog bite may simply provide the necessary skin trauma, and the agent may either be present in the dog's mouth or the environment.

Clinical Picture in Man: After the initial entrance of the agent into the compromised skin, an incubation period of from 3 days to 3 weeks results before clinical signs develop. The first indication of infection is a raised erythematous lesion at the inoculation site. Enlargement and ulceration follows. In one or two weeks, subcutaneous nodules may appear along the lymphatic channels draining the affected area. These nodules frequently enlarge and ulcerate, resulting in flat, scaly plaques on the skin. A disseminated form may also occur and may be confused with tertiary syphilis, tuberculosis, or other systemic mycoses. The disseminated form is rare, however.

Clinical Picture in Animals: Sporothrichosis occurs in both the dog and the cat. The clinical picture in animals is very similar to that seen in man.

Diagnosis: Isolation from brain-heart infusion broth and streaking on Sabouraud's dextrose agar may be attempted in both human and animal cases. On Sabouraud's dextrose agar, the

colonies appear irregularly wrinkled, membranous, and become dark brown after 10 days. A fluorescent antibody test is also available.

Prevention: Environmental spraying with fungicides is suggested. The use of protective clothing, such as gloves to prevent skin trauma, and thorough washing following skin trauma, is recommended. Care in handling infected animals particularly in people with open wounds and scratches, is also suggested.

VISCERAL LARVAL MIGRANS (*Toxocariasis*)

Etiologic Agent: *Toxocara canis*

Mode of Transmission: Second stage larva are shed in the feces of the dog and cat. Particularly heavy amounts of infective ova are shed by young puppies. Young children are especially at risk due to the ingestion of contaminated soil or close fondling of the pet. Dogs over a year of age appear to develop immunity and generally do not shed infective ova. Infection of puppies from the bitch occurs via the milk. *Toxocara* in cats is of less public health concern than is *Toxocara* in dogs.

Clinical Picture in Man: The ascarid eggs, containing the second stage larva, hatch in the intestine of man, invade the intestinal walls and gain entrance to venules and lymphatics, from which they are carried to visceral organs. As man is an abnormal host for these ascarids, they do not mature, but rather migrate, creating the pathology described as "visceral larval migrans." Hepatomegaly, eosinophilia, and pulmonary involvement are common. Less commonly fever, abdominal distension, and anemia are seen. Allergic reactions, ranging from urticaria to asthmatic attacks have been reported, although infrequently. Retinal granulomatous reactions occur and have resulted in surgical enucleations because of their similarity to malignant growths of the retina.

Clinical Picture in Animals: *Toxocara* is primarily a problem in dogs under a year of age, after that, a resistance to infection develops in exposed dogs. In young dogs the first signs of a *Toxocara* infection consist of failure to grow, dull haircoat, potbellied appearance, and general loss of condition. Adult ascarids may sometimes appear in the feces and may be vomited. Pulmonary involvement and secondary bacterial infections may be seen in early stage of infection as the larva migrate through pulmonary tissues.

Diagnosis: In man, a skin test for *T. canis* is available utilizing the powdered *Toxocara* adult. The reliability of the test is reportedly good. Fluorescent antibody tests are also used. Liver biopsy has been used as well. In dogs and cats, fecal flotation techniques are utilized to detect eggs in the feces. *Toxocara* eggs have a spherical pitted-shelled appearance under the microscope. Fecal flotation in man is futile, as the *Toxocara* do not mature in man.

Prevention: Deworming of the household pets is the most effective method of prevention. Such deworming is not especially difficult, and the rewards are high for the effort expended. Deworming the dog and cat is particularly important in households that have both young children and young pets. Feces found around the house, yard, and children's play area should be removed by adults on a frequent basis, followed by proper handwashing.

TOXOPLASMOSIS

Etiologic Agent: *Toxoplasma gondii*

Mode of Transmission: Domestic cats and certain other members of the family Felidae are capable of producing *Toxoplasma* oocysts, which are, after a period of from one to three days, capable of transmitting the infection to other animals, including man. While there are a number of sources of toxoplasmosis, other than the cat, only the cat as a source will be considered here. The cat sheds the oocysts in the feces within 4 to 15 days after becoming infected. These oocysts are ingested by people either by the feces-finger-mouth route, changing litter-pans, playing in sandboxes, or gardening in soil where cats have buried their feces.

Clinical Picture in Man: Toxoplasmosis may be either acquired congenitally or post-natally. In either form, the disease is usually asymptomatic. Congenital infection generally results from an asymptomatic infection of the mother during pregnancy which sometimes may result in spontaneous abortion, premature delivery, or stillbirth. If the infant is born alive, the congenital infection has a wide range of clinical sequelae and manifestations, ranging from no clinical signs to microcephaly. Other manifestations of a congenital infection may include fever, hydrocephaly, hepatosplenomegaly, jaundice, chorioretinitis, cerebral calcifications, and abnormal cerebrospinal fluids. Many cases of congenital toxoplasmosis, however, are asymptomatic at birth. In these infants, later manifestations of the congenital infection may include chorioretinitis, strabismus, blindness, or encephalic signs, such as hydrocephaly, microencephaly, cerebral calcifications, epilepsy, and psychomotor disorders many years later. In the post-natally acquired infection, clinical manifestations, if present, also have a wide range. Lymphadenopathy without fever or fatigue is the most common clinical sign as are chorioretinitis and uveitis, although in severe cases acute fatal fulminating pneumonitis and encephalomyelitis may occur. Other symptoms may include a macopapular rash, myocarditis, pneumonia, myalgias, arthralgias, and meningoencephalitis.

Clinical Picture in Animals: Subclinical disease in adult cats is frequent, but disease manifestations are rare. When they do occur, they include weight loss, pneumonia, fever, hepatitis with jaundice, enteritis, encephalitis, retinochoroiditis, iritis, and sometimes anemia. Unlike man, in which one infection gives immunity, the cat may be repeatedly reinfected.

Diagnosis: In man, a number of serologic tests are in current use. In adults, the Sabin-Feldman dye test, hemagglutination, indirect fluorescent antibody, and complement fixation may be used to aid in diagnosis. In infants, however, these tests are not suitable since a positive test may be reflecting the presence of maternal antibody and not actual infection in the infant. Demonstration of either a rising titer in the infant, or persistence of antibody titer after six months is a better indication of infection than a single high titer. The dye test, hemagglutination test, and the indirect fluorescent antibody titers appear early and may persist at high levels for many years. Complement fixing antibodies appear later in the disease than the other types. The indirect fluorescent antibody test can also be used. In the cat, serologic testing is not normally done because of the high rate of antibody in adult cats (up to 60%) and the cost of screening for positive cats would be prohibitive. Rising titers should overcome the first objection, but this would only magnify the second objection — the high cost.

Prevention: With regard to the zoonotic transmission to man from the cat a few precautions

will greatly reduce the chance of transmission Pregnant women and young children should not change the litterbox of the family cat If the cat is normally an indoor cat, it should be prevented from hunting activities to reduce the possibility of becoming infected by a *Toxoplasma* infected rodent Women working in the garden where cats have deposited their feces by burying should wear gloves and observe careful handwashing techniques after such activities An additional precaution, while not related to the transmission from the cat, should be observed Pregnant women handling raw meat, as in preparation for cooking, should wear gloves and again follow careful handwashing techniques, as infective cysts may also be present in raw or undercooked meat

YERSINIOSIS

Etiologic Agent *Yersinia pseudotuberculosis*
Yersinia enterocolitica

Mode of Transmission The route of transmission from the dog or cat to man is unknown for certain but it appears that the oral route is most likely It may although unusual, occur via the respiratory or conjunctival routes At least one case has been reported following a dog bite The agents are excreted in the feces and urine of the dog and cat It appears that contact with human carriers may be more important than zoonotic transmission

Clinical Picture in Man Yersiniosis occurs in four clinical syndromes Acute mesenteric lymphadenitis is the most common form It appears as a case of either subacute or acute appendicitis The appendix is either normal or slightly inflammed, but the mesenteric lymph nodes, particularly those in the ileo-cecal angle are inflammed and swollen The second type is enteritis, which is most common with *Y enterocolitica* It follows a rather benign course, but may be severe enough to require electrolyte replacement The third type, erythema nodosum, may occur alone or as part of the mesenteric lymphadenitis form Peripheral adenopathies may also occur as part of this form of the disease The fourth type, septicemia, is the rarest type When it occurs, about 75% of the time hepatomegaly also occurs Recently another form of the disease has been described, called Far Eastern scarlatinoid fever, in which fever, a scarlatiniform eruption, acute polyarthritis, and arthralgia are characteristic

Clinical Picture in Animals: In the dog and cat, the onset is characterized by a sudden anorexia, vomiting, and diarrhea. It may also have a slow onset with gradual deterioration until intestinal signs develop at which time rapid emaciation occurs and death follows in from two weeks to three months At necropsy the spleen and liver are enlarged, and the mesenteric lymph nodes may be palpated through the abdominal wall

Diagnosis Isolation of the agent from affected lymph nodes, blood, liver, spleen, or feces Agglutinating antibodies are present in the serum only for three or four months after the acute plase After this time they decline rapidly Persistence of the agglutinins after this period is thought to be due to persistence of the organisms in the lymph nodes An intradermal test for *Y pseudotuberculosis* is available, but sensitivity after infection lasts for five to six years, so a positive test may mean continuing sensitivity after an old infection and not necessarily a recent one A combination of the agglutinin test and the intradermal test may help to more closely determine the time of infection There is no satisfactory antigen for an intradermal test for *Y. enterocolitica* at this time

Prevention: Since the primary reservoirs of infection for man, dog and cat apparently are wild rodents, prevention centers around the elimination of such rodents Selective use of rodenticides to prevent either direct exposure of man, dog, and cat to the agent on indirect exposure via rodent contaminated cereals and green vegetables is also recommended

TUBERCULOSIS

Etiologic Agent *Mycobacterium bovis*
M tuberculosis

Mode of Transmission: Dogs and cats both may harbor the tubercle bacilli in the throat after exposure to human or bovine cases Both may shed the tubercle bacilli in the saliva and feces, often without clinical illness Dogs that become infected and develop clinical disease may have primary lesions in the lungs and shed organisms through coughing for long periods of time Cats are primarily infected by the ingestion of milk from cows shedding the organisms

Clinical Picture in Man: Although tuberculosis can affect all parts of the human body, the lungs are the most ocmmon site of lesions It often has a chronic, variable, intermittent, and asymptomatic course The extent of pulmonary involvement is also quite variable Infection of other sites in the body from exposure to dogs and cats, while possible is uncommon Tuberculosis has been reported in the kidney, liver, spleen, bone, meninges, testes, ovaries, joints, intestines, larynx, and other tissues of the body Man is susceptible to *M tuberculosis, M bovis*, and *M avium*

Clinical Picture in Animals Dogs are susceptible to the human type of tubercle bacilli (*M tuberculosis*) and the bovine type (*M bovis*), while the cat is resistant to the human type and susceptible to the bovine type Dogs are frequently infected when in close contact with human tuberculosis cases particularly the open pulmonary cases Cats are generally infected by the consumption of milk from tuberculous cows In the dog lung lesions with coughs of long duration occur In cats the disease primarily affects the intestinal tract In both species the lung and pleural lesions are most exclusively exudative in nature and large quantities of amber colored fluid are found in the thorax

Diagnosis: Radiographs are the primary means of diagnosis in all three species (man, dog and cat) In man, dog, and cat, serologic tests are not satisfactory Isolation of the organisms and culture of it is the only effective means of differentiating between the types of tubercle bacilli Skin tests have not been satisfactory in this differentiation As in man the most reliable diagnosis in the dog and cat is isolation of the tubercle bacilli

Prevention Open pulmonary cases of tuberculosis in dogs should be isolated from other animals and man While both the dog and cat shed tubercle bacilli in the feces, this source is not considered particularly important for man While treatment of animals with tuberculosis is possible, it is doubtful procedure both from the cost involved and the danger to man during the treatment process It is suggested that such dogs be euthanized, and the source of the infection discovered

MULTIPLE SCLEROSIS

Recent retrospective studies have investigated the possible link between Multiple Sclerosis (MS) in humans and Canine Distemper (CD) in dogs Various reports have independently

suggested a significant association and no association. The question has not been answered.

The suspected association is based on several facts: (1) both MS and CD are demyelinating diseases, and (2) CD virus is closely related to human measles virus.

In the initial study by Cook and Dowling, 29 families with familial MS And 29 matched control families were examined There was a significantly (P 0.01) higher exposure to small house pets (dogs and cats less than 11.4 kg) in the MS group

However, a subsequent study by Nathanson *et al* in Iceland showed a high incidence of MS in a country with a very low canine population and almost no CD.

Again, these, and several others, are retrospective studies and are, therefore, totally statistical Some controversy even exists among investigators of differing views over the statistical methods/conclusions used by the other.

At the present time, there is no scientific evidence to show a causal relationship between CD and MS It does require further study and, hopefully, some prospective examinations. There are no public health precautions to be taken now.

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Suggested Reading:

Primarily a disease of young dogs and cats with diarrhea of variable severity Various species of *Isospora* are responsible It has been described in humans but is very rare

Pediculus humanus capitis, P *humanus corporis* and *Phthirius pubis* are human parasites They have, on occasion, been found on dogs but their presence there is accidental Lice are species specific

Hull T G *Diseases Transmitted From Animals to Man*, 6th Edition, Thomas, Springfield Ill 1975 1002-1005

Van der Hoeden, J. *Zoonoses*, Elsevier, New York N.Y., 1964, 516-520

Merck Manual, Latest Edition, Merck, Rahway, N.J

Merck Veterinary Manual, LatestEdition, Merck, Rahway, N.J

Ms. DENMAN. We hope that you will reconsider this amendment.

Again, speaking from personal experience, we have some single-story housing in small communities and in suburban areas where it is fairly manageable to have cats and dogs. We have allowed them. But in the city high rises we feel that it is not only unmanageable, it is not fair to either the residents or the animal to introduce them there.

Finally, we return to the proposed tax changes which will be considered by the Committee on Finance. The changes proposed by the Treasury Department last November will have profound effects on the availability of rental housing in this country. Equity syndications will no longer be possible because of many provisions, such as the indexation of interest and the extension of depreciation periods to 63 years.

INCREASE IN RENTS

The National Association of Home Builders, in a recent study, has estimated that if these changes are enacted, rents of a newly constructed complex would increase by 42 percent.

The Treasury has also proposed the elimination of tax-exempt financing for rental housing. If this is enacted, an additional 21 percent increase in rents, for a total of 63 percent would occur. If rents for newly built housing increase by 63 percent, who can afford to live in them? Very few people, indeed.

The result will be that no new rental housing will be constructed. If no new rental housing is constructed, by the law of supply and demand, rents in existing units will rise, and when rents rise who suffers? The low-income families and the elderly, who represent the renters in our society.

Now, 58 percent of renters have incomes of less than $15,000 a year. We have retained the tax incentives for homeownership. We also should retain the tax incentives for rental housing.

We realize these tax measures don't come under your jurisdiction, but that of the Finance Committee. But this committee has the greatest housing expertise in the Senate. Therefore, we would like to request, if you feel it is appropriate, that you testify before the Finance Committee about the drastic consequences of these changes.

Senator HECHT. We can take that up with the committee.

Ms. DENMAN. Fine, thank you.

We would also suggest that other members of the subcommittee share on an informal basis these thoughts with other Members in the Senate.

Is my time at an end?

Senator HECHT. Summarize yourself.

Ms. DENMAN. Fine, I am on my last paragraph.

Senator HECHT. That is easy.

Ms. DENMAN. The involvement of your committee on tax matters affecting housing is not unprecedented. Last year, Senators Garn and Tower opposed in floor debate a change in the Internal Revenue Code on imputed interest, which would have prevented the revitalization of existing housing.

Although their efforts were unsuccessful in preventing this change, they established the salutary precedence of involving Senators concerned with housing in tax matters.

Thank you for the opportunity to share with you our thoughts.

Senator HECHT. Thank you, and I joined them in that fight on imputed interest.

Ms. DENMAN. Oh, you did? Very good, I was not aware of that.

Senator HECHT. Oh, yes. Very bad.

[The complete prepared statement follows:]

National Leased Housing Association

NLHA

2300 M STREET, N.W. / SUITE 260 / WASHINGTON, D.C. 20037 / (202) 785-8888

TESTIMONY OF DONNA DENMAN, PRESIDENT, NATIONAL LEASED HOUSING ASSOCIATION
BEFORE THE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
U. S. SENATE
MARCH 22, 1985

My name is Donna Denman, Executive Director of the Greene Metropolitan Housing Authority of Xenia, Ohio. I am President of the National Leased Housing Association, on whose behalf I am testifying. I am accompanied by Charles L. Edson of the Washington, D. C. law firm of Lane and Edson, P.C., Counsel to our Association.

The NLHA represents more than 750 member organizations involved in multifamily rental housing, including public housing authorities, developers, managers, not for profit organizations, as well as the financiers of low and moderate income housing. We feel that this combination of public and private entities concerned with providing decent rental housing for all Americans is exactly what is necessary to get housing produced in this age of scarcity. We are proud to have been pioneers in this public-private effort.

We are here today to address three basic issues - the proper housing authorization level for FY 86, repeal of Section 227 of the Housing and Urban-Rural Recovery Act of 1983 prohibiting local management discretion in prohibiting pets in elderly projects. and the need for this committee to have an input into changes in the Internal Revenue Code that would affect dramatically the production of multi-family housing.

FY 1986 Authorization

NLHA, like all others concerned with providing housing in this country, can only express the strongest opposition to the Administration's budget proposals. Certainly in a time of severe budget stringency, every domestic program should take its fair share of cuts.

And we have!

During the past four years, we have taken much more than our fair share. The Section 8 new construction program which produced 82,000 units in 1980 had been eliminated by FY 85. Conventional public housing has suffered virtually the same fate. Likewise, the Section 8 existing program has been severely cut from FY 81 to FY 85. Now on top of this, the Administration proposes to eliminate in FY 86 what remains of the Section 8 existing program as well as its highly touted voucher program as

well as public housing construction. In addition, no further funding is proposed for our last remaining vestages of housing productions programs - Section 202 and Section 515 - as well as the highly successful Urban Development Action Grant (UDAG) program, the newly successful Housing Development Grant program (HoDAG), and the Administration's own rental rehabilitation program.

We will not dwell at length on this issue as I am sure this Committee is well aware of the concern of the housing community about the Administration's proposal. Although in an ideal world, we would like to see restoration of the housing cuts of the past five years, we know that this is not possible under today's budget stringency. However, we fully concur in the decision of the Senate Budget Committee that housing assistance programs should be funded on the FY 85 level. This means approximately 110,000 units for the utilization of rental assistance for existing housing; I will discuss in a few minutes how this should be done. We also applaud the Budget Committee in voting to make funds available for the Urban Development Action Grant program (UDAG) and the Community Development Block Grant program at the FY 85 level.

While on the subject of CDBG, we reiterate our position that the construction of new housing should be an eligible CD activity in view of the dearth of funds otherwise available for housing construction.

To elaborate on one of our earlier statements, we strongly believe funding for assistance for existing housing should be under the Section 8 existing program and not under the housing voucher experiment. Under the Section 8 existing program, a tenant pays 30% of family income for rent and the landlord is limited to receiving a rent within HUD's fair market rent limitations. Accordingly, the Section 8 existing programs assures that tenants pay a fair proportion of income for rent and that the landlords receive a reasonable rent. Under the Administration's housing voucher program, the landlord essentially is able to charge any rent they can get and the tenant is free to pay about 30% of income for rent. It seems clear that under vouchers, tenants will be bidding against each other for what decent apartments are available, resulting in rent income ratios higher than 30%, and unduly high rents to landlords.

However, as superior as Section 8 is over the voucher program, let me say that neither mechanism compares in practicality of administration with the old Section 23 Leased Housing Program. Under Section 23 it was the PHA who entered

into the lease with the landlord and then subleased the unit to the tenant. As a result, there was a sophisticated lessee dealing with the landlord at all times, namely the local housing authority. At the same time, the tenant entered into lease arrangements with a socially conscious landlord, again the local agency. Our experience has shown that Section 23 resulted in less paperwork, more efficiency and more tenant concern than either the Section 8 existing program or vouchers.

We realize that this is hardly the time to be selling new program concepts, but assuming funds for utilizing existing housing are to be maintained, then this committee should seriously consider restoring the Section 23 mechanism.

Repeal of Section 227 of Housing and Urban-Rural Recovery Act of 1983.

Section 227 of the Housing and Urban-Rural Recovery Act of 1983 bars the manager of any federally-assisted rental housing for the elderly or handicapped from prohibiting pets in the project. When this provisions was adopted in 1983, there were hearings in neither House nor Senate; the provision was added to the House bill on the floor and in the Senate bill as an amendment at a markup session.

The first chance for full consideration of the ramifications of this amendment occured when HUD published its proposed implementation regulations late last year. The regulations expose a raft of problems arising from mandating pets in elderly projects, including relocating tenants allergic to pets in non-pet areas, the myriad costs involved in having pets in an elderly project and who will pay for them, the need for national health standards for pets, the fact that many projects just were not designed with pets in mind and the practical difficulties of obtaining exercise space and proper ingress and egree during emergencies. We realize that this is not the forum to debate HUD's regulations on the subject. We do ask leave to submit our comments on the regulations for the record as we believe they illustrate the manifold problems inherent in this mandatory pet rule which were not contemplated by the Congress in 1983 with the hope that Congress will reconsider this amendment.

Finally, on a philosophical matter, in an era where we are seeking less federal involvement in local and personal matters it seems incongruous to remove on a national basis management discretion to adopt locally appropriate rules for pet inclusion or exclusion.

Tax Legislation and Housing

We have talked about important housing legislation that is before this Committee. We now must turn to equally important housing legislation that will not be considered by this committee but by the Committee on Finance - proposed tax changes as they affect the financing of rental housing. In brief, the Treasury Department in November proposed drastic changes that would affect the present way that equity is formed for rental housing through the syndication process. Equity syndications will no longer be possible because of such provisions as the elimination of the "at risk" rule, the effective preclusion of deducting interest payments made by the project, limitations of limited partners to 35 members, and the extension of the depreciation period to 63 years. The National Association of Home Builders, in a recent study, estimated that these changes would cause rents to increase 42% on a new rental housing project.

The Treasury also proposed the elimination of tax exempt financing for rental housing. As you are aware, such financing is now permitted provided that 20% of the tenants qualify as lower income. If tax exempt financing is eliminated, rents would increase another 21% on newly constructed projects, for a grand total of 63%.

The result of these changes is obvious. Even under current tax treatment, the market for new rental housing is limited because of today's high construction costs. If current rents for new projects had to be increased by 63%, there would be very few tenants indeed who could afford to live in such projects. As a result, no new rental housing would be constructed as pointed out in the NAHB study. Of course, if no new rental housing is constructed the rents on existing projects have to increase by a simple exercise of the law of supply and demand.

Who suffers most if there should be no more rental housing? It is low income families and the elderly because today rental housing is the predominant housing for low income people. In 1983 the median income of a renter household was only $12,400, approximately half that of homeowner households who, by the way, would retain their mortgage interest deductions under the Treasury plan. 78% of renter households have incomes of less than $15,000 a year. Accordingly, the proposed tax changes would be disastrous to those Americans who have always been the main target of concern of this subcommittee.

We are fully aware that the tax measures are not within your jurisdiction. However, this Subcommittee possesses the greatest technical expertise on housing matters in the Senate. Accordingly, we urge you to share your concern with your colleagues on the Finance Committee. If appropriate, we suggest

that your Chairman testify before the Finance Committee as to the disastrous effect that the Treasury changes would have on rental housing, also pointing out that at the same time that indirect assistance to rental housing through the tax laws is being eliminated direct subsidies for such housing are at an all time low. In addition to formal presentations, we respectfully request that members of the Housing Subcommittee share their concerns with members of the Finance Committee on an informal basis and indeed make known your concerns among all members of the Senate.

The involvement of your committee on tax matters affecting housing is not unprecedented. Last year, Senators Garn and Tower opposed in floor debate a change to the Internal Revenue Code on imputed interest that makes it a great deal more difficult to resell and revitalize existing assisted projects. Although their efforts were unsuccessful in preventing this change, they established the salutary precedent of involving Senators concerned with housing in tax legislation.

Thank you for allowing us to share our thoughts with you.

Senator HECHT. The Farmers Home Apartment Construction Program is a direct loan program. This seems a highly inefficient use of scarce Federal resources.

Can you make some suggestions for different funding mechanisms?

I will start with you.

Ms. DENMAN. I don't have direct experience with the Farmers Home.

Senator HECHT. Oh, I didn't know that.

Ms. DENMAN. But I would say that members in our association who do have find that it is very effective in the rural areas.

Perhaps Mr. Edson, who is counsel for our organization, would like to speak to that issue.

Mr. EDSON. If I may, with your permission, and again be the fourth on the panel to congratulate you on your chairmanship.

Senator HECHT. Thank you.

Mr. EDSON. We are especially proud of you because we are both ex-St. Louisians, just going in different directions, and you have done very, very well.

Senator HECHT. I graduated from Washington University in 1949.

Mr. EDSON. Right. I grew up two blocks away from there, and I knew of your background.

Senator HECHT. You didn't want to embarrass me and tell me you were much younger, is that right? [Laughter.]

DIRECT LOAN PROGRAM

Mr. EDSON. Well, 3 years, Senator, is not too much.

The Farmers Home program is a direct loan program, as you state. The rationale was that in rural areas there just is not the direct lending resources; 700 of our counties in this country do not have savings and loans, and that is not counting the State of Ohio at the present time, and therefore you do need a direct lender, and that is why Congress passed that law in 1949, and I think those needs still continue.

Your committee will be having hearings on that on April 15, and I believe you will hear far more justification for the direct loan program. But it was one of the most unfortunate actions of the Budget Committee of not continuing it.

And one more point: although the direct loan goes on budget, it is paid back. The only charge to the Federal Government is the interest subsidy every year, which is about 8 or 9 percent, so that the budget bite is really worse—appears worse than it actually is.

Senator HECHT. Thank you.

Mr. Hyde, would you care to address that?

Mr. HYDE. I think the key issue was made, Mr. Chairman, the lack of direct loans in so many of the rural areas.

Senator HECHT. Marc.

Mr. HECTER. Yes. I must concur. In about 13 of our rural counties it is the only game in town.

Senator HECHT. Thank you.

Given the activity of the State housing agencies, why should Farmers Home be running a separate program? Can you make some suggestions for State and FmHA coordination?

You want to start off, Marc?

Mr. HECTER. OK.

Senator HECHT. Change the batting order?

Mr. HECTER. The participation of the HFA's in Nevada—which I can address directly—with Farmers Home Administration has been minimal. We have relied primarily on our association with Federal housing to provide housing opportunity in the rural counties.

However, we are still subject to the same market fluctuations as anyone else, and, more importantly, we are nothing more than the same kind of direct lender that Farmers Home is. At the moment, they are better able to serve, with the rural expertise, the rural needs, while we concentrate like most States the bulk of our activity in the urban centers.

Farmers Home Administration still appears to be the only true direct real opportunity for direct lending in rural counties, and it is going to remain that way for quite some time. We simply do not have the mechanisms to get out into all the rural counties as we should as yet.

Senator HECHT. Thank you.

Mr. Hyde, do you want to comment?

Mr. HYDE. Nothing to add.

Senator HECHT. Ms. Denman.

Ms. DENMAN. No, thank you.

Mr. EDSON. Just to amplify——

Senator HECHT. You have never seen an attorney that didn't want to comment, have you?

Mr. EDSON. Right. [Laughter.]

Ms. DENMAN. That is right.

Mr. EDSON. I don't get paid by the word, Senator.

I just want to add to what Marc had to say. In many States, the State agency has one office, generally in the capitol, and it does not have the retail capacity you especially need in your single family programs, section 502, where you have county offices. It is just a much more efficient delivery system.

And a little bit of history: before you became a Member of the Senate, this committee did recommend that the Farmers Home Program be put into a block grant administered by State agencies. This was in a housing bill in 1982 that never came to the floor, but 41 Senators had signed a resolution or a "Dear Colleague" letter against this change, from both parties. It was very bipartisan.

So it is a very, very debatable and we think a very unwise change.

Senator HECHT. Farmers Home State offices do the multifamily lending and not the county offices.

Mr. EDSON. If I may amplify, district offices do multifamily, and in many States—there are dozens of district offices in big States—the final approval is by the State office, but unless I am mistaken I really do believe it is the district office which does the processing.

[Pause.]

Mr. EDSON. I am told that the district office has authority up to a certain loan level from a Farmers Home buff.

Senator HECHT. State offices do the final approval on multifamily loans?

COUNSEL. That is correct.

Senator HECHT. See, I got my attorney right here, too. So you are not the only one with an attorney.

Mr. EDSON. You have a very good one, and we have certainly discussed this matter many times before. We may disagree, but in an atmosphere of mutual respect.

Senator HECHT. Thank you.

Anyone else?

Let's see, let's go on another point.

SIZE OF ADMINISTRATIVE COST

A constant theme through my questions has been the size of administrative cost in the Federal Housing Program.

Would you give me your assessment of which programs are the most and which are the least costly for you to administer?

Mr. HECHTER. Well, from my perspective it is quite simple. We don't administer any. So we have no costs to pass on.

We defer the use of housing assistance payment contracts to the local housing authorities, take none at the State level, and then those few projects where we participate with an underlying section 8 contract, it is pledged again to the project sponsor or the public housing authority and not to the State.

Senator HECHT. Thank you.

Mr. Hyde.

Mr. HYDE. With some bias, since I was primarily responsible for the Community Development Block Grant Program, I think of all of your Federal programs it probably has one of the best records for minimum administrative cost because there is less Federal interference, although clearly stated Federal objectives, and I think we go back to the dog issue or the pet issue.

And I would like to make—there are two distinct differences between the Federal Government outlining the objectives that must be met in a program as distinct from telling the localities or States how to achieve those objectives, and it seems to me that that is a good illustration of the Federal intervention where it doesn't belong. And I bet you, that caused more administrative headaches and costs, just that one kind of foolish action.

It seems to me that if you could look at all of the programs—and they do have different problems, so that you can't compare one to the other and say, well, this administrative cost is less than the other, therefore it is better. They have different problems.

But if you could get a uniform kind of approach to say at the Federal level, we are not going to give you 8,000 pages of regulations, but the objectives you must achieve in your own local circumstances, you will find a better way than somebody at HUD could figure out. I think that is the objective that Congress ought to shoot for.

Senator HECHT. Thank you.

Ms. DENMAN. I will speak of the agency that I administer. We try to keep all of our administrative costs at or below 7 percent of the total budget for any program that we are operating.

We operate a large Section 8 Existing Program. That of course is an inexpensive program.

We also are unique in that we, for our family units—the comment was made earlier that family units are more expensive—we don't build large complexes of family units. We use scattered site family units, and they are more difficult to maintain. They are more costly to maintain, but we feel that in the long run they are less expensive because we don't have the impact of creating a ghetto or having high security costs and vandalism or vacancies.

Senator HECHT. Thank you.

Since Commissioner Dondero started it with a Nevada person, I will end up with a question to another Nevada person, Marc.

I do not think that with $200 billion deficits that we have any choice but to be more prudent in our spending for Federal programs designed to assist low-income Americans.

LEAST EXPENSIVE FORMATS

Relying on your knowledge of and experiences with these programs in Nevada, could you share with this subcommittee any suggestions on how we can continue to meet our objectives of serving those less fortunate in a more economical fashion?

I would like your personal views.

Mr. HECHTER. Well, starting on the direct spending side, I think I will have to concur with Mr. Hyde that the CDBG formats and CDBG use is probably less expensive and more directly effective if you are going to rely on States as the institutional mechanisms to produce the objective.

Switching then to housing assistance, I think you are going to have to accept an absolute commitment to all existing housing assistance payments contracts you have executed at the national level.

With respect to new housing production, those programs, with a particular aim toward the direct rent subsidy programs, may have to be reevaluated with respect to entitlement funding or formula funding mechanisms rather than fixed number of unit bases over a year.

For one thing, you are going to have to deal with the demands from Sun Belt States to get a bigger cut at the expense of Frost Belt States, while still recognizing that vacancy issues and needs for rent subsidy exist across the country.

That would lead us to suggest that some form of formula funding is going to be necessary, which is probably going to be dissatisfactory to anybody, consequently, a fairly decent compromise.

With respect to affordability, other kinds of affordability subsidies, expand the demonstration project for vouchers. It is a way perhaps to address housing assistance needs in the market vacancies that exist by providing the benefit to individual households—rather, than to individual projects.

On the indirect side, keep your hands off the Tax Code. While there is a great many arguments to be made pro and con, depending if you are sitting at the Treasury table or leased housing or from other HFA's, if you are going to walk away from direct spending benefits, you are going to have to keep the States in business with indirect spending benefits. Otherwise, you are going to have an ultimate disaster on your hands.

Even in States that are experiencing static growth the need for housing is going to continue. It is not going to go away.

Senator HECHT. Thank you very much, and with that we will wrap it up.

I thank all of you for attending.

Mr. HECHTER. Thank you, Mr. Chairman.

[Whereupon, at 12:33 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

HOUSING, COMMUNITY DEVELOPMENT, AND MASS TRANSPORTATION AUTHORIZATIONS—1986

MONDAY, MARCH 25, 1985

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 1:30 p.m., in room SD-538, Dirksen Senate Office Building, Senator Chic Hecht (chairman of the subcommittee) presiding.

Present: Senators Hecht, Gorton, Riegle, Proxmire, Cranston, Dixon, and Sasser.

OPENING STATEMENT OF SENATOR HECHT

Senator HECHT. The hour is 1:30, and the Subcommittee on Housing and Urban Affairs will commence.

Today's hearing is the second in a series of three scheduled hearings that begin the reauthorization process for the programs under the Department of Housing and Urban Affairs and Farmers Home Administration.

Additionally, we will be hearing testimony from our witnesses on the administration's budget recommendations for Public and Rural Housing, Community Development, Mass Transit, and Flood Insurance Programs.

On Friday, we heard testimony from representatives of State and county governments and housing program managers. Today's witnesses will represent the interests of the private sector, city government, mass transit systems, and Government-sponsored agents of the secondary mortgage market.

On April 15, we will be hearing from spokesmen from the administration as well as rural housing interests.

Whether one agrees or disagrees with the particular details of the administration or the Budget Committee's budget proposals, the overriding fact of the $200 billion budget deficit threatening our economic future cannot be disputed.

In the next few months, we on this committee, and indeed the entire Congress, must work together and make the difficult decisions to curtail Government spending and relieve the tremendous burden that this deficit places on us now and for the next several years.

The Budget Committee has recently completed action which achieves budget outlay savings of $55.1 billion for fiscal year 1986.

Their final product makes significant revisions and cuts across the budgetary spectrum.

The Banking Committee will be charged with making program revisions and cuts which add up to $4.1 billion in outlay savings in fiscal year 1986.

Many of these savings are projected for programs under the jurisdiction of this committee. We will be forced to make some very difficult and painful decisions in order to meet these goals.

The President has made it very clear that he will not be adverse to using his veto authority if we fail to meet our objectives.

This subcommittee is willing to consider any responsible suggestions designed to streamline these programs to make them more effective, efficient, and less costly to provide. I believe we can still meet our commitments to providing for low-income beneficiaries while at the same time doing our part in reducing the deficit.

Senator Proxmire, do you have a statement?

OPENING REMARKS OF SENATOR PROXMIRE

Senator PROXMIRE. Thank you very much, Mr. Chairman. I don't have a prepared statement. I just want to say a couple of things.

First, I want to congratulate you on the caliber of your witnesses. This is an all-star cast here. I am delighted to see them because there are a few more important issues that confront us.

Obviously, we all know that housing is enormously expensive. Federal housing programs place a great burden on the taxpayer. We also know that we face the worst deficit problem in the history of this country. One of the principal victims of the deficit, I should say, is housing, because it depends so heavily on interest and the rate of interest. These deficits drive interest rates right through the ceiling.

With witnesses of this caliber, I am sure we will get some very good suggestions as to what we can do. I don't envy our witnesses their position. It is very difficult to tell us how we can help housing, and at the same time get the deficit under control, but that is the problem we face.

So I want to congratulate you on calling these hearings. I think this is one of the most important of the hearings that the Senate will have, certainly, this month.

Senator HECHT. Thank you, Senator.

Senator Dixon.

Senator DIXON. Mr. Chairman, I have a prepared statement that I ask to be made part of the record as though read in full.

Senator HECHT. Thank you very much.

STATEMENT OF SENATOR DIXON

Senator DIXON. I am pleased to have the opportunity to listen to testimony regarding the authorization of programs under the Department of Housing and Urban Development, the Farmers Home Administration, and the Urban Mass Transportation Administration.

Every person in this room, I am sure, realizes the financial difficulties our Federal Government currently faces. We know that the deficit must be reduced, beginning in this fiscal year if we are to

ensure a sound economy. However, I believe that any deficit proposals must be fair and equitable.

I am very disappointed with the administration's budget proposals for Housing, and Community and Regional Development Programs. Once again, a disproportionate number of housing-related programs are proposed for reduction or elimination.

The need for decent and affordable housing still exists. In my own State of Illinois, for example, the homeless number somewhere between 40,000 and 50,000 persons. I understand that for the city of Chicago, HUD estimates there to be some 25,000 homeless persons.

It may interest this subcommittee to know that on March 11, 1985, I investigated the housing needs of one segment of our society, the homeless. I held a hearing in Chicago on the problems of hunger and homelessness in Illinois. I received testimony which shows a desperate need for more decent and affordable housing. As a result of the hearing, I know that many working families are now seeking emergency housing, thus competing for the already crowded homeless shelters.

I am also concerned about the administration's proposals regarding mass transportation. Public transit provides a vital service for our cities and towns. Federal support for public transportation is lower in 1985 than it was in 1980. Its call on general revenues has declined even more dramatically as a result of the allocation of 1 cent of the 5-cent gas tax increase of 1982 to transit.

Transit has sacrificed, I believe, to help hold down exploding Federal deficits.

I look forward to the testimony of the various witnesses with respect to the administration's budget proposals and the actions taken by the Senate Budget Committee. I especially welcome Herb DeLaney, alderman from Kankakee, IL, who is representing the National League of Cities. The benefit of Alderman DeLaney's counsel and advice is very much appreciated as well as that of our other distinguished panelists.

Thank you, Mr. Chairman.

Senator HECHT. Thank you, Senator Dixon.

Senator PROXMIRE. And could I just say, Mr. Chairman, I am going to have to leave for a few minutes, but I will be back later for questions.

Senator HECHT. Thank you.

Let me give you the ground rules today. We have a very large agenda. There is a special White House meeting later this afternoon which I have to attend. So I am going to ask all of you to submit your prepared statements and try and consolidate your statements before this committee to 5 minutes. If at the end of the 5 minutes and you are really in a jackpot, I will give you another minute to summarize.

So with that, let us start with our first witness, Mr. Bob Spiller.

STATEMENT OF BOB SPILLER, PRESIDENT, BOSTON FIVE CENTS SAVINGS BANK, BOSTON, MA, PRESIDENT, MORTGAGE BANKERS ASSOCIATION, ACCOMPANIED BY BURTON C. WOOD, LEGISLATIVE COUNSEL, MORTGAGE BANKERS ASSOCIATION; AND WILLIAM E. CUMBERLAND, GENERAL COUNSEL, MORTGAGE BANKERS ASSOCIATION

Mr. Spiller. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, my name is Robert Spiller. I am chairman and chief executive officer of the Boston Five Cents Savings Bank, which is located in Boston. I am also President of the Mortgage Bankers Association of America [MBA].

We appreciate the opportunity to appear before the subcommittee today to testify on fiscal year 1986 budget proposals; Senate bill 667, the Housing and Community Development Amendments of 1985; and related housing legislation.

Accompanying me today are Burton C. Wood, MBA's legislative counsel, and William E. Cumberland, MBA's general counsel.

INCREASED USER FEES

MBA is adamantly opposed to the provisions of the administration's fiscal year 1986 budget proposal that calls for the imposition of new and/or increased user fees on an array of mortgage credit programs operated by the FHA, the VA, Ginnie Mae, Fannie Mae, and Freddie Mac. On March 13, the Senate Budget Committee approved a budget package that substantially included these fees proposed by the administration.

In voting to impose user fees on the VA, Fannie Mae, Freddie Mac, and, in effect, the FHA, and Ginnie Mae programs, the Budget Committee reversed its earlier decision to reject these unwarranted additional costs.

The Mortgage Bankers Association of America urges the Senate to return to the original position of the Budget Committee.

While the FHA Mortgage Insurance Program and the Ginnie Mae Mortgage-Backed Securities Program were excluded from the Senate Budget Committee's recommendations, this latest action nonetheless pulls the rug out from under the FHA and Ginnie Mae programs because an agreement exists within the administration that should the fees on VA, Freddie Mac, and Fannie Mae be raised by legislation, the fees on FHA and Ginnie Mae can and will be raised administratively.

If Ginnie Mae should be forced to raise its fees, the mortgage lenders incurring these additional costs will be forced to pass them along to home buyers who need the FHA and VA programs. As you may know, virtually all FHA and VA mortgages are pooled and sold to investors as Ginnie Mae securities.

Fannie Mae, too, will be especially hard hit. They must constantly roll over their debt to finance mortgages already in their portfolio. Every time they reissue debt, they will be assessed, and they will have no way to recover this new expense except to charge higher fees to future home buyers.

During his campaign, and as recently as last Thursday, the President said that he would not increase taxes. With these pro-

posed fees, he contradicts himself. These proposed fees are not only a tax on homeowners using the Federal mortgage credit programs, but they are also contrary to the whole purpose of the programs.

Deficit reduction was not the overriding priority of those who designed the administration's 1986 budget proposal.

The proposed fees are more than a tax. They are an effort to undercut the decision of the Congress that the Federal Government should encourage home ownership by encouraging private capital to be available to prospective home buyers. These new fees would only be paid by low- and moderate-income home buyers.

The housing sector has been willing to do its fair share to fight the deficit. We have paid our dues in the cuts already made in Federal housing programs.

I can tell you that housing has already given far more than its fair share. The President's own budget demonstrates this.

In summary form of Federal budget outlays by major function, the one line item that includes housing is also the one line that actually turns a profit as we move into 1987 and beyond.

In other words, in the area of commerce and housing credit, the Government will actually be collecting more from its citizens than it pays out. In every other expenditure category, whether it be defense, energy, natural resources, agriculture, transportation, health, and income security programs, and so on, that budget still contains very, very sizable outlays.

Therefore, while I cannot tell you precisely where to cut, I can tell you that housing has already given more than its fair share. Housing, in effect, has been taken out of the President's budget. There is no other sector about which this can be said.

MBA also has a number of observations with regard to a variety of housing finance issues and to HUD's proposal for its 1985 authorization, Senate bill 667, which we have included in our full statement.

We very much appreciate the opportunity to testify, and we would be happy to answer any questions.

Senator HECHT. Thank you very much. You are right on target.

[The complete prepared statement follows:]

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202-861-6500

Mortgage Bankers Association of America

TESTIMONY OF

Robert J. Spiller
Chairman and Chief Executive Officer
The Boston Five Cents Savings Bank
Boston, Massachusetts

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

of the

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

on

Fiscal Year 1986 Budget Proposals;
S 667, the "Housing and Community Development Amendments of 1985";
and Related Housing Legislation

March 25, 1985

Mr. Chairman and members of the Subcommittee, my name is Robert J. Spiller. I am Chairman and Chief Executive Officer of The Boston Five Cents Savings Bank, which is located in Boston, Massachusetts. I am also President of the Mortgage Bankers Association of America.* MBA appreciates the opportunity to appear before the Subcommittee today to testify on the Fiscal Year 1986 Budget proposals; S 667, the "Housing and Community Development Amendments of 1985"; and related housing legislation. Accompanying me today are Burton C. Wood, MBA's Legislative Counsel, and William E. Cumberland, MBA's General Counsel.

MBA is deeply concerned by the provisions of the Administration's FY 1986 budget proposal that call for the imposition of new and/or increased "user fees" on an array of Federal mortgage credit programs operated by the Federal Housing Administration (FHA), the Veterans Administration (VA), the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC). On March 13, the Senate Budget Committee approved a budget package that substantially included these fees proposed by the Administration. The package explicitly listed fees for VA, FNMA, and FHLMC. The Administration has indicated that if Congress approves these fees, it can and will increase the fees for FHA and GNMA.

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*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of mortgage and real estate finance. MBA's membership comprises mortgage originators, mortgage investors, and a variety of industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, financing, selling, and servicing real estate investment portfolios. Members include:

- Mortgage Banking Companies
- Mortgage Insurance Companies
- Life Insurance Companies
- Commercial Banks
- Mutual Savings Banks
- Savings and Loan Associations
- Mortgage Brokers
- Title Companies
- State Housing Agencies
- Investment Bankers
- Real Estate Investment Trusts

MBA headquarters is located at 1125 15th Street, N.W., Washington, D.C. 20005; telephone: (202) 861-6500.

In voting to impose user fees on the VA, FNMA, FHLMC, and, in effect, the FHA and GNMA programs, the Budget Committee reversed its earlier decision to reject these unwarranted additional costs. This latest action will raise the price of mortgage finance at a time when homeownership is out of reach for many Americans.

The Mortgage Bankers Association of America urges the Senate to return to the original position of the Budget Committee. If allowed to proceed unchallenged, these proposals will seriously damage a housing industry that has only recently emerged from one of the longest and most devastating housing recessions.

While the FHA mortgage insurance program and the GNMA mortgage-backed securities program were excluded from the Senate Budget Committee's recommendations, this latest action, nonetheless, pulls the rug out from under the FHA and GNMA programs. By raising the fees on the FHLMC and FNMA programs, the Administration has been granted the green light it sought to raise the fees on the FHA and GNMA programs. The Committee may have been under the false impression that, by excluding FHA and GNMA, they were protecting both programs. The truth is that an agreement exists within the Administration that should the fees on FHLMC and FNMA be raised by legislation, the fees on FHA and GNMA can and will be raised administratively.

The General Accounting Office, in a recently issued report on the recommendations of the President's Private Sector Survey for Cost Control (Grace Commission), specifically disagreed with the Grace Commission's recommendation that the GNMA fee be raised from the current 6 basis points to 10 basis points:

> "GAO does not believe an increase in the fee is justified or necessary in that the fee currently charged mortgage servicers is already adequate to operate the program on a financially sound basis. In fiscal year 1983, GNMA took in nearly $90 million in guarantee fees and paid out only

> $70,000 in claims. Further, since the program's inception in 1970, GNMA has received over $400 million in fees and paid out claims totaling less than $12 million. To increase the fee would go far beyond what is needed for an actuarially sound program."
>
> (Compendium of GAO's Views on the Cost Savings Proposals of the Grace Commission, Vol. II, p. 1239, February 19, 1985.)

If GNMA should be forced to raise its fees, the mortgage lenders incurring these additional costs will be forced to pass them along to homebuyers who need the FHA and VA programs. As you may know, virtually all FHA and VA mortgages are pooled and sold to investors as GNMA securities.

FNMA, too, will be especially hard hit. They must constantly roll over their debt to finance mortgages already in their portfolio. Every time they reissue debt, they will be assessed, and they have no way to recover this new expense except to charge higher fees to homebuyers.

MBA believes that these proposed fees are a thinly disguised tax on homeowners using the Federal mortgage credit programs, and that they are contrary to the whole purpose of the programs. The proposed fees are an indirect effort to undercut the decision of Congress that the Federal government should encourage homeownership by encouraging private capital to be available to prospective homebuyers. The housing sector is willing to do its fair share to fight the deficit. But we've paid our dues in the cuts already made in Federal housing programs. The Administration, having run out of places to cut, is now resorting to selective taxes.

If additional taxes are needed, they should be broad-based and not exclusively targeted to homeowners. MBA urges that all spending be reviewed, including defense and COLAs, before a tax increase is considered, but we recognize that some broad-based tax increase may be necessary. The proposed user-fees, however, should be rejected.

MBA would also like to express its views on a variety of other pertinent housing issues.

Continued availability of the FHA mortgage insurance program and the GNMA mortgage-backed security (MBS) program should be assured by providing adequate credit budgets of at least $50.9 billion and $68.25 billion, respectively, for them. FHA's insuring authority should be extended at least two years beyond its current expiration date of October 1, 1985, and the FHA Section 251 adjustable rate mortgage (ARM) insurance program should be freed from statutory program volume and interest rate adjustment limits.

MBA believes that statutory limits on interest rates and interest rate adjustments generally are a bad idea. We would urge you to resist any attempts to restore the HUD Secretary's rate setting authority for FHA-insured mortgages and the authority to establish "caps" on ARMs generally.

In 1983, MBA strongly supported the efforts of some of the members of this Subcommittee to encourage the secondary market for mortgages by legislation creating TIMs—Trusts for Investment in Mortgages—and other measures. MBA believes that continued development of the secondary mortgage market is important and beneficial for homeownership. MBA supports further effort to improve the legal framework for the expansion of this market.

FY 1986 ADMINISTRATION BUDGET PROPOSAL ON "USER FEES" FOR FEDERAL MORTGAGE CREDIT PROGRAMS

Under the Administration's proposal the mortgage insurance premium paid at settlement by FHA borrowers would be increased from 3.8 percent to 5 percent and for VA loans the

premium would be increased from 1 percent to 5 percent. The existing mortgage-backed security guaranty fee imposed by GNMA would be increased under the proposal from the current 6 basis points to 15 basis points. (A basis point is 1/100th of one percent.) The proposal would impose new fees on FNMA and FHLMC, which would have to pay a 5 basis point fee on debt issuances, including new debt as well as rollovers of existing debt. Issuances of participation certificates and mortgage-backed securities would also be subject to a 5 basis point fee that would increase to 8.3 basis points in 1987. These fees would apply annually to the outstanding balance of debt and securities until they are paid off at maturity.

MBA supports the current existing user fees imposed on the FHA mortgage insurance and GNMA mortgage-backed security programs as necessary to operate these programs, but only to the extent that the fees are designed to make these programs actuarially sound and self-sustaining—that is, when the user fees are devoted to covering the cost of administering these programs, including salaries, rent, overhead, etc., as well as to pay realized losses as a result of defaults experienced by these programs and entities. In order to accomplish these purposes, these user fees should continue to be directed to designated funds operated by and for these entities rather than being included as general U.S. Treasury revenues.

MBA recognizes that the VA home loan guaranty program is not within the jurisdiction of this subcommittee, but the relationship of the fees as proposed in the FY 1986 Budget suggests that the members of this subcommittee should oppose the VA fee in the upcoming debates on the FY 1986 Budget Resolution.

MBA opposes the fees proposed to be levied on debt and mortgage-backed securities issued by FNMA and FHLMC. Both these entities currently charge user fees to lenders

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for mortgage purchases and guaranties of mortgage-backed securities that are set at levels designed to cover FNMA's and FHLMC's costs and underwriting risks. FNMA and FHLMC do not require any Congressionally appropriated funds to operate.

Charging fees to users of the government's housing and mortgage credit programs for the purpose of enhancing U.S. Treasury revenues will increase mortgage rates and is contrary to the Congressional purpose of fostering homeownership through these programs and entities. MBA believes that in the fight to reduce the Federal deficit, it may be necessary to raise taxes as a last resort, once significant cuts have been made in Federal spending. But such increases should be broad-based rather than imposing a special tax on homeownership. Homebuyers and borrowers should benefit from the purpose of these programs, which has been to foster homeownership opportunities by making mortgage credit more affordable for moderate- and middle-income homebuyers.

While the ostensible purpose of the Administration's proposal is deficit reduction, MBA views these fees as a continuation of the effort to reduce the role that the Federal government has long played in providing support for mortgage credit.

The OMB budget for FY 1986 states that: "There is a recognized national need to promote the private financing of mortgage credit and to support an environment in which there are fair and equitable opportunities for business development and growth." (p. 5-57)

This statement disregards the fact that FHA and VA loans are made entirely with funds provided by private lenders and therefore represent a time-tested partnership between Government and private enterprise. Furthermore, GNMA, FNMA, and FHLMC, which serve to stimulate and stabilize the secondary mortgage market, do the same thing by maximizing the role of the private market.

Perhaps the most unfair characterization in the quotation is that this is a "recognized national need." Congress, by supporting adequate levels for the credit budget for these programs and increasing those levels as needed, has repeatedly rebuffed the efforts of the current Administration to reduce the role of FHA and GNMA. Even though Congress has passed legislation to enhance the conventional mortgage-backed security market, the "Secondary Mortgage Market Enhancement Act," P.L. 98-440, it has emphasized that the role played by GNMA, FNMA, and FHLMC is essential in maintaining support for mortgage credit for moderate- and middle-income home borrowers.

In particular, OMB attempts to justify increased or new fees for the operations of GNMA, FNMA, and FHLMC as necessary "to prevent the Government and Government-sponsored enterprises from competing unfairly with the private sector in the secondary mortgage market."

This completely ignores the fact that GNMA, FNMA, and FHLMC are restricted to the lower end of the mortgage market by Congressional review of their charter authority. GNMA may only purchase FHA, VA, and Farmers Home Administration loans with restricted maximum mortgage amounts, while FNMA and FHLMC may only purchase loans up to the maximum mortgage amount of $115,300.

Private entities already compete aggressively at these lower market levels, and they have no competition whatsoever in the loan market above the mortgage purchase limits.

Another rationale promoted by OMB is the need to impose "user fees" on Government programs that reflect the costs attributable to the programs. MBA believes this is a legitimate objective, and supports existing user fees for FHA and GNMA as necessary to

operate these programs, but only to the extent that they are designed to make these programs actuarially sound and self-sustaining.

FHA has operated its homeownership programs for 50 years at no cost to the Government. These programs include Section 203(b) (single-family), as well as newer programs, Section 234 (condominium), Section 244 (coinsurance), and Section 245 (graduated payment mortgage). Program administration costs, as well as foreclosure claims, are completely covered by mortgage insurance premiums; i.e., "user fees" already are sufficient to pay program costs, and program operations were backed by $3.66 billion in reserve funds as of the end of 1984.

GNMA has also operated its mortgage-backed security program on a self-sustaining basis since its inception in 1968. GNMA had $819 million in its reserve fund, known as the MBS Investment Portfolio, as of the end of FY 1984 to cover losses, and there have only been $10.9 million in claims since the GNMA-MBS program began operations in 1970. Most of these claims took place before 1977. In fact, in 1984, GNMA's total claims outlays were only $135,000. As of the end of FY 1984, GNMA had guranteed $209.1 billion in MBSs. Thus, the ratio of net claims and advances to securities issued through FY 1984 is exceedingly small.

FNMA and FHLMC operate under Congressional Charters that require these entities to provide support to the secondary mortgage market. Their mortgage purchase activities are restricted by Congress, which limits their mortgage purchases to loans of $115,300. In 1984, FNMA's average loan purchase was approximately $54,000, while FHLMC's was $48,763. Thus, these entities are clearly serving that sector of the market as Congress intended.

Neither FNMA nor FHLMC has ever required Congressional appropriations. Both are quasi-public entities and their stock is publicly traded. However, their Boards of Directors are partially (FNMA) or wholly (FHLMC) appointed by the President.

Impact of Proposed Fees on Home Borrowers

Proponents of the fees have argued that if the fees are eligible for inclusion in the loan amount then their impact on the borrower will be minimal. MBA disagrees with this reasoning, because even incremental increases will disqualify marginally creditworthy home borrowers. Also, adding these fees to the loan amount will decrease a home borrower's equity and, therefore, make these loans potentially riskier. Finally, the borrower will pay these fees up front, but if a loan is prepaid earlier than within 30 years, for example, then the borrower has paid a user fee for a service never rendered.

The FHA program addresses this problem in part by paying dividends from its mutual fund to certain classes of borrowers. There is no such provision, however, in any of the other fee proposals.

If the borrower chooses to pay the cost of these fees up front, an extra 1.8 percent of the loan amount would be required as a result of these proposed increases. For the average mortgage FHA borrower in 1983, this 1.8 percent equates to an increased cash outlay at the loan closing of $929, and would jump to $1,200 on the maximum allowable FHA loan amount (See Exhibit 1). Assuming the borrower had the extra cash available, this unplanned-for outlay could create severe financial hardship on the borrower's budget expectations, and thus actually increase the risk of default in the near-term. Alternatively, the borrower could choose to incorporate the increased fees into the amount borrowed, thereby effectively increasing the monthly payment. This, of course,

would require the borrower to have a larger annual income than would otherwise be the case without the increased fees. Therefore, it follows that some otherwise eligible, individuals will be precluded from obtaining the mortgage necessary for the home purchase. Based on the most recent Bureau of the Census data on households and families, Exhibit 2 statistically demonstrates the potentially debilitating effect on homeownership these fees could generate. In order to finance a home mortgage equal to the 1983 FHA average mortgage of $52,227, these fees could exclude about 686,000 otherwise qualified households and almost 500,000 families. Should the home price require the maximum FHA mortgage, these increased fees could statistically exclude over 825,000 households and some 650,000 families. (Source: Bureau of the Census Current Population Reports, Series P-60, No. 142. Issued February 1984).

The exhibits outline the impact of these fees on borrowers. Several points should be taken into consideration, however, when examining these data. First, the analysis is based on a contract mortgage interest rate of 12.5 percent. In the past several years, mortgage interest rates have been substantially higher. At even incrementally higher interest rates, these proposed fees will be significantly larger on a monthly basis as well as over the life of the loan.

As the exhibits show, if the fees are paid monthly for 30 years, they would total $3,819 on the average loan of $52,227; $4,932 on a $67,500 loan; and, $6,584 on the maximum high-cost area loan of $90,000.

Rebate for Prepayment of Mortgage

Currently, under certain circumstances, FHA borrowers receive a rebate/dividend from the Mutual Mortgage Insurance Fund. Since this fact is acknowledged in the OMB Budget

(page 5-60), MBA presumes there is no plan to change this feature. Essentially, those premiums in excess of funds necessary to pay off claims, cover administrative expenses, and maintain reserve funds are rebated to FHA borrowers. Thus, the Government has the use of these unjustified fees until the loan is paid off. Absent from the proposal is any provision for interest to be paid to the homeowner for the use of this money.

MBA believes that the proposal to impose fees on FHA, VA, GNMA, FNMA, and FHLMC has not been thoroughly thought through, as there has clearly been no effort to equate these fees to the risks and costs of the programs. User fees, to be justified as something other than a tax on homeownership, must be equivalent to the service provided.

This Proposal Will Increase the Riskiness of These Programs

Risk, in the mortgage lending business, is a function largely of two factors--the creditworthiness of the borrower and the value of the collateral security. Risk is reduced where there is substantial equity in the property. The level of risk is expressed as the "loan to value" (LTV) ratio. For example, a loan with a 5 percent downpayment carries a 95 percent LTV ratio.

It is generally true that the more equity a borrower has in the property, the harder that borrower will work to avoid default. Even if the borrower is in financial straits, the home can usually be sold to cover the loan balance and preserve the borrower's credit standing.

The OMB proposal for increased user fees rationalizes the sharp increase in user fees by stating that they may be added to the loan amount. While this ostensibly makes these fees affordable to borrowers, it will increase the risk of the programs, because the LTV

ratio will increase and in many cases the borrower will owe more than the property is worth.

The downpayment requirement for the FHA program is 3 percent of the first $25,000 and 5 percent of the balance. In the case of moderately priced homes valued at $50,000 or below, a flat 3 percent downpayment will be required as soon as HUD issues regulations implementing legislation recently enacted. The VA program requires no downpayment whatsoever. If 5 percent fees are added to the loan amount where the borrower has opted for a downpayment of less than 5 percent, the amount of the loan will exceed the value of the property. This will increase the risk of these programs, because borrowers facing financial difficulties may choose to walk away from their responsibilities.

MBA is not suggesting that downpayment requirements be increased, as these liberal requirements are one of the chief benefits of the FHA and VA programs. Rather, MBA is urging the Committee to recognize these excessive fees for what they are—potentially damaging to the solvency of these programs.

Another potential impact is that lenders will scrutinize borrowers and property appraisals more closely to determine whether they are marginal. Even if FHA or VA approves such a loan, a lender may exercise the right to refuse the loan in marginal cases, or to require stiffer loan terms to offset increased risk.

Even if a lender can look to the mortgage insurance or guaranty for ultimate repayment in case of a loss, the lender incurs substantial losses in default and foreclosure situations. When loan payments are not made, the lender must advance payments from its own funds to the investor. If the loan default continues, the lender must shoulder the costs of collection, counseling, and foreclosure efforts. To avoid these increased costs, lenders

will be forced to review marginal cases more thoroughly. This will hurt precisely the class of borrowers that the FHA and VA programs was most intended to serve. That is a costly social price compared to the profit these increased user fees are expected to generate for the U. S. Government.

Impact on Secondary Mortgage Market

Just as borrowers will have to shoulder the proposed increased upfront FHA and VA fees, increases in fees for loans sold to the secondary market entities, GNMA, FNMA, and FHLMC will be passed along to borrowers. Lenders will have to incorporate these fee increases into the price/interest rate of their loans.

As stated earlier, these increased fees are not necessary to compensate for program operating costs, which are already fully covered. Again, these increased fees simply represent a tax on homeowners utilizing the Government mortgage credit programs.

Fees as Proposed Harm FNMA Disproportionately

While fees imposed on the outstanding balance of FHLMC Participation Certificates (PC) or FNMA and GNMA MBS issues will be passed along to borrowers, the budget proposal goes much further in its impact on FNMA's operations.

FNMA has structured its operations much like a giant portfolio lender. That is, FNMA issues short-term debt securities and uses the proceeds to purchase long-term instruments—mortgages—and holds those mortgages in its portfolio. FNMA's current outstanding portfolio of mortgages totals approximately $90 billion. The budget proposal would impose fees of 5 basis points increasing to 8.3 basis points on debt rollovers. Any time

FNMA seeks to roll over its existing debt on its existing portfolio, it would be subject to this fee. Thus, the proposal has a particularly harmful and retroactive impact on FNMA because of FNMA's past activities under a previously determined marketing strategy.

FNMA cannot retroactively pass these new costs along to the borrowers on these existing mortgages. Therefore, FNMA could either have to accept the significant losses these fees would present or attempt to increase its fees on new loan purchases to cover these losses. Passing these fees along to future borrowers is obviously unfair, but the alternative of simply swallowing hard and absorbing the losses will threaten the viability of FNMA altogether.

Summary of User Fee Analysis

The Federal deficit presents hard choices for every sector of the economy and every interest group. While all cry out in unison for cuts, there is much second guessing and finger pointing as to where those cuts should fall.

Housing, over the past four fiscal years, has shouldered a significant portion of the cuts in domestic spending. MBA has, during this time, maintained its position on subsidized housing—that is, that limited Federal subsidies should be targeted to the needy.

MBA, however, does not view the Federal mortgage credit programs as involving subsidies, to the extent that these programs have always covered their costs. Therefore, MBA believes it is illegitimate to characterize these proposed increases as "user fees," because they seek to generate a profit—not to cover costs—and that profit is a thin disguise for a special tax on homeownership. Short-term profit taking will jeopardize these programs by increasing their risk and by making homeownership unobtainable for

marginal borrowers who previously would have been quite capable of managing their mortgage debts.

MBA believes that the concept of these "user fees" and their potential harmful impact on the programs has not been adequately analyzed. These programs, with the limited exception of the VA loan guaranty program, have not been responsible for adding to the Federal deficit. MBA, therefore, urges Congress to reject the proposed "user fee" increases for FHA, VA, GNMA, FNMA, and FHLMC.

CREDIT BUDGET LIMITATIONS ON FHA AND GNMA-MBS PROGRAM

Levels Appear Adequate

MBA supports the FY 1986 levels of $50.9 billion for the FHA mortgage insurance programs and $68.25 billion for the GNMA-MBS guaranty program that are reflected in the Administration's FY 1986 Budget Proposal. These limits should prove adequate to support consumer demand for these programs at present and anticipated interest rates. MBA's support of these budget limits is in the context that since 1981, when limits were first set, Congress has been sensitive to the need to maintain a viable FHA and GNMA that can respond to all the propsective homebuyers whose economic circumstances demand that they seek to use these programs.

Full Use of Authority

Two bills, S 649 and S 650, introduced by Senator Carl Levin on March 7, would direct the HUD Secretary to use his or her authority to insure mortgages to the extent there was a

demand for the insurance. MBA has supported inclusion of such an anti-impoundment provision in housing legislation over the past several years, and continues such support, even though the current Secretary has not indicated that he would refuse to issue insurance.

RETAIN THE FHA FREE RATE

Congress addressed the issue of FHA interest rate ceilings in 1983, and, in Section 404 of Housing and Urban-Rural Recovery Act of 1983 (PL 98-181), provided that the FHA insured mortgages could "bear interest at such rate as may be agreed upon by the mortgagor and mortgagee." Proposals have been made that Congress again authorize the Secretary of HUD to set maximum interest rates for FHA-insured mortgages.

The statute freeing FHA mortgages from administratively set ceilings has been in force for over a year. To date, there have been no widely reported and documented instances of abuse or charges of substantially above market interest rates by lenders making FHA insured mortgages. As we maintained to the Congress in testimony on this issue in 1983 and prior years, the market forces of supply and demand, together with the national linkage of all local mortgage markets, ensures that no single lender or group of lenders in any locality or region could demand and receive mortgage interest rates substantially above the market rate.

ADJUSTABLE RATE MORTGAGES

Adjustable rate mortgages (ARMs) are mortgages that provide for interest rate increases or decreases over the life of the loan, as adjusted pursuant to an agreed-upon index. There recently have been proposals to amend Federal law to limit the adjustments to

interest rates that lenders and borrowers may negotiate. MBA is opposed to Federal legislation that would place interest rate "caps" on lifetime or annual ARM adjustments or otherwise restrict the innovative development of ARMs. Such restrictions would be shortsighted and largely unnecessary because the industry has devoted a great deal of effort to developing instruments that provide consumer protections while at the same time ensuring continued investor interest in ARMs. MBA does support continued industry efforts to provide reasonable borrower protections of interest rate increases. MBA supports standardization of both ARM Truth-In-Lending disclosures as well as conflicting Federal regulations. Standardization of documents and uniform requirements for hypotheticals and worst-case scenarios will remove a great deal of the confusion consumers may face when shopping for an ARM loan.

Finally, MBA strongly supports the standardization of ARMs disclosure requirements. The varying requirements presently in force serve only to confuse the consumer and overburden the lender. Thus far, the Federal agencies have not been able to agree on uniform disclosure requirements and a uniform hypothetical example. A working group appointed by the Federal Financial Institution Examination Council (FFIEC) met throughout the fall of 1984 in an attempt to develop a uniform hypothetical example, acceptable to all the banking agencies, but ultimately no consensus was reached. Because the Federal banking agencies are having difficulty agreeing on uniform disclosure requirements, MBA suggests that one agency, the Federal Reserve Board, which Congress designated to implement Truth-in-Lending, be empowered to regulate the area of ARMs disclosure requirements and that these regulations be applicable to all housing creditors, whether or not regulated by another Federal or state agency. The staff of the Federal Reserve Board is presently developing disclosure requirements for ARMs which will become part of its Regulation Z. Unless the other Federal agencies that impose disclosure requirements on ARMs repeal their regulations once the Federal Reserve

Board's proposal is final, the present situation will still exist. MBA, therefore, urges the Congress to make the Federal Reserve Board the sole regulator in the area of ARMs disclosures.

FHA ARM Volume Restrictions Should be Removed

MBA urges removal of the restriction on the aggregate number of FHA Section 251 ARM mortgages that the HUD Secretary may insure. The FHA ARM contains significant consumer protections, which limit the amount of interest rate adjustment to no more than 1 percent per year and 5 percent over the lifetime of the mortgage. However, the volume of activity for this program is currently limited to no more than 10 percent of the total volume of FHA loans in the previous year. MBA believes that the FHA ARM program with its pro-consumer safeguards should operate free of these volume restrictions.

GNMA is pioneering an ARM Mortgage-Backed Security. Its successful development is contingent upon there being a sufficient volume of ARM loans. As yet, VA does not have authority to guarantee ARMs, although a proposal has been made. Therefore, the GNMA ARM-MBS relies totally on FHA product volume. The greater the volume, the more consumers will benefit from pricing competition. Finally, as with many other initiatives, the market looks to FHA to serve as a pattern. MBA, therefore, urges that legislation to remove the volume restrictions on FHA Section 251 be enacted.

PREEMPTION OF USURY FOR SECOND MORTGAGES

MBA urges the Subcommittee to provide a Federal usury preemption for mortgages secured by a second lien on residential real estate, in the same fashion as Congress

enacted the Federal usury preemption, which now protects first-lien mortgages from restrictive state usury laws.

The demand for second-lien mortgage loans has increased dramatically in recent years. MBA's 1984 survey of mortgage banking companies concluded that mortgage bankers originated $863 million in second mortgage loans in 1983, the last year for which data are available, compared with $96 million in 1979. ("Loans Closed and Servicing Volume for the Mortgage Banking Industry," December, 1984.)

The rapid increase in second-lien mortgage lending comes from increased use of such mortgages to facilitate first-lien transactions and from a desire of homeowners to borrow against their equity without paying off the existing first mortgage. Increasingly, buyers are forced to use second mortgages in purchasing a home, because the appreciation of house prices has exceeded the family's ability to save for a substantial downpayment, even though the buyers may have sufficient income to meet both first and second mortgages. In situations where existing first liens carry high prepayment penalties or carry interest rates much lower than current rates on new loans, second mortgages provide a means by which the homebuyer can "refinance" his mortgage investment without disturbing the first lien.

Second mortgages are also used to provide rehabilitation and repair of existing residential real properties. This is especially true in multi-family housing projects. It is becoming clear that as housing becomes more expensive, people are moving less, buying fewer "new" homes, and instead, are repairing what they own. A second mortgage usury preemption would facilitate such a national rehabilitation effort.

This is especially important for the elderly and for retired persons who have lived in their homes for decades and whose first mortgages are substantially paid down, but who need funds to rehabilitate their lifelong investment.

Second mortgages also are used extensively in large multi-family housing project developments where several lenders are involved. A second mortgage preemption also would facilitate new multi-family rental housing, which, as a percentage of new building, has been decreasing rapidly over the last decade.

Responding to and encouraging the increased market demand for funding based on home equity that does not disturb an existing, favorable-rate first-lien mortgage, FNMA entered the secondary market for second-lien mortgages in late 1981. When FNMA began to make commitments to purchase second-lien mortgages at yields on $\frac{1}{4}$ percentage point higher than yields it required on first-lien mortgages, a new depth was brought to the secondary market for second mortgages. Not only is FNMA's activity helpful to mortgage originators who sell to FNMA, but the presence of FNMA in the market has provided reassurance for other lenders to enter the second-lien mortgage business.

In enacting Title V of the Depository Institutions Deregulation and Monetary Control Act of 1980 (PL 96-221), which preempted state usury laws for first-lien mortgages, Congress recognized that anachronistic state legal limits on interest rates and discount points were impeding the operation of the nationwide mortgage market, and preventing the equal flow of mortgage credit to the Nation's citizens. Concerned lest the rights of the states be unnecessarily preempted, Congress allowed each state until April 1, 1983 to act to reimpose usury ceilings. Only 13 states chose to act to reassert jurisdiction over interest rates on first-lien mortgages, and none of them has acted in a manner significantly detrimental to the market.

The impediments which interfered with the nationwide market for first mortgage financing continue to interfere with second mortgage borrowing. Eighteen states specifically limit second mortgages rates; the remaining states have a variety of laws restricting borrowing charges. As with first mortgages, such laws should be set aside, with, of course, the authority reserved to the states to reconsider imposing usury limits if any wishes to do so.

1985 AUTHORIZATION LEGISLATION FOR THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS

The Administration's housing proposals are contained in S 667, the "Housing and Community Development Amendments of 1985." The bill provides for authorizations for housing and related programs for HUD, as well as program extensions.

Following are MBA's recommendations with respect to various sections of S 667:

Housing Assistance Generally

Title II generally provides for housing assistance at a level significantly below past levels, reflecting an emphasis on budget considerations. Even the voucher program, much heralded last year by HUD, would not be implemented on a wide-spread basis.

MBA believes a program to assist the construction of multifamily rental housing, administered by HUD, is necessary to provide an adequate supply of housing to low-income families in areas where the unassisted private market is not providing an adequate

supply. MBA urges Congress to enact a multi-family rental housing production assistance program as part of the 1985 HUD authorizing legislation.

A related issue involves the use of tax-exempt financing in connection with assisted housing. The Administration asserts that linkage of rental assistance, such as under Section 8 of the U.S. Housing Act of 1937, or under Section 221(d)(4) of the National Housing Act, to project financing with the proceeds of tax-exempt bonds is inherently inappropriate. However, we believe the use of tax-exempt bonds to complement HUD's programs has worked well when targeted to low-income, elderly, and handicapped individuals, and that the linkage is appropriate.

Preventing Fraud and Abuse

Title II, Section 202, would authorize HUD to obtain social security numbers and other personal information from participants in HUD's program.

MBA supports the objective of Section 202; however, without a specific proposal for how such an identification system will be implemented, the possibility for misuse and delay cannot be evaluated. To the extent HUD intends to forward the identification to other entities for checking, applications—including applications for mortgage insurance—could be held up pending a response. HUD should at least identify what it believes to be its responsibility for the collection and transmission of identification numbers, and outline the method, including the timing, by which the reporting will be accomplished.

Housing for the Elderly

Section 221 would make permanent HUD's authority to borrow funds from the Treasury for direct loans for elderly and handicapped housing projects.

The President's Budget for FY 1986 proposes a two-year moratorium on new Section 202 projects. MBA notes that the Section 202 program has been an effective vehicle for meeting the needs of the elderly disadvantaged that cannot be met by the private market. MBA urges that if this Subcommittee determines the moratorium to be appropriate; that it also assure the temporary freeze not be allowed to become a permanent termination of the program.

Moderate Rehabilitation Program

Section 223(b) would eliminate the Moderate Rehabilitation program contained in Section 8(e)(2) of the U.S. Housing Act of 1937.

MBA opposes enactment of Section 223(b). MBA has found the Section 8 moderate rehab program to be a cost-efficient way to deliver assistance to a well-targeted population of families in need.

Extension of FHA Insuring Authority

Title III, Section 301, would extend the insuring authority for most FHA programs for two years.

MBA supports this two-year extension.

The "Housing and Urban-Rural Recovery Act of 1983" (PL 98-181) extended the authority of the Secretary of HUD to insure loans under the various FHA mortgage insurance programs through September 30, 1985. MBA supported the two-year extension as an improvement to the past practice of providing one-year extensions. Two-year extensions, or longer, diminish the possibility of FHA's insuring authority lapsing and disrupting the markets, as has occurred when extensions were for one year. MBA urges Congress to extend the FHA insuring authority for at least two years beyond the current October 1, 1985 expiration date.

Section 232 Program for Nursing Homes

Section 301 would not extend the FHA authority under Section 232 of the National Housing Act to insure mortgages on nursing homes, intermediate care facilities, and board and care homes.

MBA urges that the program to insure nursing home mortgages be continued. MBA believes that the Section 232 program has been a successful one and that, with a rapidly growing population of older Americans, the Federal government should continue to encourage the financing of new facilities designed primarily to house and otherwise care for the elderly.

Section 235 Programs for Lower Income Families

Section 301 would not extend the FHA authority under Section 235 of the National Housing Act to insure mortgages and provide assistance payments for lower income families.

MBA recognizes that, under current Federal fiscal circumstances, there are no funds to provide assistance payments, and, therefore, the 235 program will not be used in the immediate future. However, the 235 program is sound. It is an efficient means of promoting homeownership for credit worthy lower income families. MBA urges that Congress retain the statutory authority for the Section 235 program.

Section 242 Program for Hospitals

Section 301 would not extend the FHA authority under Section 242 of the National Housing Act to insure mortgages on hospitals.

MBA encourages the Congress to continue this program. Hospital sponsors have used it successfully to finance needed hospital development at reasonable costs.

Multifamily Projects in High-Cost Areas

Section 306 would increase the maximum high cost area adjustment factor for mortgage limits for multifamily projects in high-cost areas from 75 percent to 110 percent of the basis mortgage limits.

MBA supports enactment of Section 306. Cost levels in certain areas are higher than basic levels, and the proposal reflects market reality.

Research Authorization

Section 311 would authorize the appropriation of $18.9 million for HUD research.

MBA supports enactment of Section 311. MBA has consistently supported research by HUD to evaluate and improve its programs, and to undertake demonstrations and testing of innovative housing concepts.

Housing Development Grants

Title IV, Section 401, would elminate the Housing Development Grant program, known as HoDAG.

MBA opposes repeal of the HoDAG program. The HoDAG program is targeted to low income families who need assistance, and where HoDAG funding has been incorporated into successful community redevelopment projects, HoDAG has added an important dimension to these projects.

SECONDARY MARKET LEGISLATION

Without doubt, the most significant improvement in housing finance in the past decade has been the growth of the secondary market for mortgages, which has largely been the result of the development of mortgage-backed securities. Certain changes in Federal law are needed to permit the market to continue to develop the mortgage-backed security to attract capital market investors into housing finance.

The Senate Banking Committee was instrumental last year in the passage of the Secondary Mortgage Market Enhancement Act (PL 98-440), which made needed changes to Federal securities laws in order to facilitate the development and expansion of the conventional mortgage-backed securities market.

The leadership of the Committee also recognized that significant impediments to the secondary mortgage market existed in the operation of Federal tax law upon mortgage-backed securities. Toward that end, S 1822 "Trusts for Investments in Mortgages" (TIMs) was introduced. It would have amended the tax laws to permit creation of a flexible investment trust for residential mortgages. TIMs offer the opportunity for investors to reduce the uncertainty as to the maturity of residential mortgage investments that they now make by permitting several classes of securities with differenct maturities to be issued backed by a single pool of mortgages. The result of such an arrangement would be lower interest rates for homebuyers, because investors demand much less of an interest rate premium in return for greater certainty of when their investment will mature. Without changes to the tax law, any such multi-class arrangement issued in the traditional grantor trust format would now be subject to tax liability at the pool level under proposed IRS regulations issued May 2, 1984, entitled "Classification of Investor Arrangements with Multiple Classes of Ownership" (49 FR 18741).

In the absence of corrective Federal tax legislation, the private sector has devised a means of achieving somewhat greater certainty in maturity through collateralized mortgage obligations (CMOs). These CMOs have found good market acceptance and have helped to lower mortgage interest rates. However, the complexity required to meet accounting standards and tax law provisions is expensive and requires creation of rather cumbersome financial arrangements. At best, CMOs are a limited anwer to tax law impediments—and then only for the very largest lenders, who can amass a volume of mortgages sufficient to offset the expense of creating CMOs.

We believe that the TIMs legislation, or perhaps legislation more modest in scope, that would remove most of the current tax law impediments to multi-class mortgage securities

is still needed, and we urge the members of this Subcommittee to continue to lend active support to a resolution of this issue.

MBA appreciates the opportunity to appear before this Subcommittee, and would be pleased to furnish additional information as needed.

EXHIBIT 1

Increased Borrowing Costs on FHA Loans at Alternative Mortgage Amounts

	Average Mortgage Amount 1983	Current Maximum Mortgage Amount	Current Maximum Mortgage Amount—High Cost Area
Illustrative Mortgage Amounts:	$52,227	$67,500	$90,000
A. Increased costs if all fees are paid up front:			
Increase Due to Increased GNMA Guaranty Fee*	$302.02	$ 390.34	$ 520.45
Increase Due to Increased Mortgage Insurance Premium	626.72	809.99	1,079.99
Total Increased Costs	$928.74	$1,200.33	$1,600.44
Additional Discount Points Required to Obtain Loan	1.8	1.8	1.8
Effective Interest Rate**	12.84	12.84	12.84
Increase in Effective Interest Rate	.34	.34	.34
B. Increase in monthly payments if all fees are amortized:			
Monthly Payment Under Current Fee Structure	$557.40	$ 720.40	$ 960.53
Increase in Monthly Payment Due to Increased GNMA Fee*	3.92	5.06	6.75
Increase in Monthly Payment Due to Increased Mortgage Insurance Premium	6.69	8.64	11.53
Total Increase in Monthly Payment	$ 10.61	$ 13.70	$ 18.29
Monthly Payment Under Proposed Fee Structure	568.01	734.10	978.82
Percentage Increase in Monthly Payment	1.9%	1.9%	1.9%
Increase in Minimum Annual Income Necessary to Qualify for Loan	335.26	432.63	577.58

*The upfront payment due to the increase in the GNMA guaranty fee was calculated on the assumption of a 12-year life of loan.

**The effective interest rate was calculated in conformance with standard Federal Home Loan Bank Board practice.

Prepared by the MBA Economics Department, March 1985.

EXHIBIT 2

Effect of Proposed FHA and GNMA Fee Increases on Borrowing Costs

	Average Mortgage Amount 1983	Current Maximum Mortgage Amount	Current Maximum Mortgage Amount-- High Cost Area
Illustrative Mortgage Amounts:	$52,227	$67,500	$90,000
Present Value of Proposed Increases in GNMA and FHA Fees	$928.74	$1,200.33	$1,600.44
Discount Point Equivalent	1.8	1.8	1.8
Monthly Payments*			
Without Fees	$557.40	$ 720.40	$ 960.53
With Fees	$568.01	$ 734.10	$ 978.82
Maximum Required Annual Income**			
Without Fees	$17,602	$ 22,749	$ 30,333
With Fees	$17,937	$ 23,182	$ 30,910
Difference	$ 335	$ 433	$ 577
Potential Number of Households Excluded	686,000	828,000	818,000
Potential Number of Families Excluded	498,000	654,000	691,000

*Monthly payment calculation assumes a fixed 12.5 percent mortgage interest rate, 30 year term to maturity. The portion attributable to increase in GNMA guaranty fee was calculated on the assumption of a 12-year life of loan.

**Assumes underwriting constraint associated with limitation of 38 percent of annual income dedicated to payment of principal and interest.

Source: Money Income of Households, Families, and Persons in the United States: 1982. Bureau of the Census, Current Population Reports, Series P-60, No. 142. Issued February 1984.

Prepared by the MBA Economics Department, March 1985.

Senator HECHT. Mr. Carlson.

STATEMENT OF DR. JACK CARLSON, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF REALTORS, WASHINGTON, DC

SUPPORT DEFICIT REDUCTION

Mr. CARLSON. Mr. Chairman, the National Association of Realtors strongly supports the total deficit reduction dollar amount contained in the Senate Budget Committee resolution. We will support those spending cuts recommended by the Budget Committee and would even support greater spending reductions than those in the Budget Committee's resolution and in programs that affect our members and their customers, as we have for 5 years.

We do not support tax increases which discourage savings investment in home ownership, and therefore we strongly oppose tax increases in the disguise of user fees on housing credit programs. We urge this committee to reject the $300 million in tax increases on housing credit programs suggested by the Senate Budget Committee and in its place cut spending by 20 percent in programs recommended to be cut by President Reagan, including public housing modernization, urban development action grants, solar bank, deferral on subsidized housing units, and housing counseling assistance.

We urge this committee to specifically limit the Secretary of HUD from administratively increasing the tax-like user fees on FHA Mutual Insurance Program and Ginnie Mae.

Rather, we recommend that this committee reduce the FHA user fee by at least one-half percentage point, or about $400 for the average new mortgage, and reduce Ginnie Mae user fees modestly, as the FHA and Ginnie Mae fees already exceed cost and risks associated with these programs.

We urge this committee to rebate up to about $1,000 of excess premiums over a number of years to past FHA home loan guaranteed purchases. The reserve has grown a huge $4 billion and is unjustified.

We also urge this committee to reject the newly proposed $10 million Fair Housing Initiatives Program and related programs until the Government clarifies whether it supports equal access or discriminatory access to housing and eliminates the double standard it has attached to define illegal racial mixing.

USER FEES TOO HIGH

The Federal Government is violating the spirit, if not the letter of the law, by charging too high user fees for FHA. The rate should be, and should have been, 3.3 percent or lower to cover all costs and mutual insurance risk. Instead, it is 3.8 percent, and the administration's proposal is to raise it to 5 percent.

The mutual insurance fund has now increased to an obviously excessive $3.5 to $4 billion and is forecasted to grow in all future years. The excess in the fund should be refunded to households who have paid excessive premiums.

Unfortunately, the premium rate for the FHA mutual mortgage insurance fund can be increased administratively, and the Secre-

tary of HUD has indicated that he intends to increase the premium if the Congress does not instruct him differently.

We urgently request this committee and the Congress to direct the HUD Secretary to limit any increases in the future to the true cost of FHA insurance and lower the premium to 3.3 percent, which is adequate to cover costs and risk of insurance in force, to gradually rebate the excess premiums to current participants with more than 5 years in the program, to base insurance premiums on costs and risks separately, such as for different premiums for fixed rate, adjustable rate, and graduated payment mortgages.

The premium rate for Government National Mortgage Association can be increased administratively and may be scheduled to increase by October 1, 1985. The General Accounting Office said it is not necessary to increase Ginnie Mae fees because the existing fees cover operating costs and risks. The HUD Secretary should be prohibited from administratively increasing the Ginnie Mae fees.

The 5-basis point tax increase in 1986 and 8.3-basis point tax increase in fiscal year 1987 on Federal Home Loan Bank Board, Freddie Mac, Fannie Mae on all debt, and staying at 5 percent for mortgage-backed securities, is unjustified and antihome ownership. The tax will be primarily passed on to homeowners in the form of higher mortgage costs and less readily available mortgage financing and primarily for lower income households. The tax increase could permanently cripple Fannie Mae. Fannie Mae is a central part of the mortgage finance system, including providing funds and liquidity during recessions.

Although the user fees on veterans are not part of this committee's, we will be making the same petition to that committee.

HUD is requesting the $10 million Fair Housing Initiatives Program before it has clarified the objectives of those initiatives. Included in the program is testing for discriminatory conduct in the sale and rental of housing without clarifying when conduct is discriminatory.

Does the law require equal opportunity to housing? Does it allow or require some discrimination, such as integration maintenance programs by Government and Government-sponsored groups of the type intended by this proposed program?

Senator HECHT. Could you kind of round it up in the next minute, please?

Mr. CARLSON. Surely.

In opposition to free choice, HUD has gone in for different forms of discrimination through racial mix goals of various kinds, as indicated in the Starrett City project in New York, and we think it is time to clarify that and to reduce this double standard.

Thank you, Mr. Chairman.

[The complete prepared statement follows:]

STATEMENT
ON BEHALF OF THE
NATIONAL ASSOCIATION OF REALTORS
REGARDING
HUD FY 1986 BUDGET PROPOSALS AND AUTHORIZATION LEGISLATION
TO THE
SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
BY
DR. JACK CARLSON
MARCH 25, 1985

I am Jack Carlson, the Executive Officer and Chief Economist of the NATIONAL ASSOCIATION OF REALTORS. On behalf of the more than 675,000 members of the National Association, we greatly appreciate the opportunity to testify before the Senate Subcommittee on Housing and Urban Affairs of the Committee on Banking, Housing and Urban Affairs. We are pleased to respond to this Subcommittee's request for our views on deficit reduction, HUD's FY 1986 Budget proposals and the 1985 authorizing legislation.

SUMMARY

- The NATIONAL ASSOCIATION OF REALTORS strongly supports the total deficit reduction dollar amount contained in the Senate Budget Committee resolution.

- We will support those spending cuts recommended by the Budget Committee and would even support greater spending reduction than those in the Budget Committee's resolution (see Attachment 1).

- We do not support tax increases which discourage savings, investment and homeownership and, therefore, we strongly oppose tax increases in the disguise of user fees on housing credit programs.

- We urge this Committee to reject the $300 million in tax increases on housing credit programs suggested by the Senate Budget Committee and in its place, cut spending by 20 percent in programs recommended to be cut by President Reagan, including public housing modernization, Urban Development Action Grants, solar bank, deferral on subsidized housing units, and housing counseling assistance.

- We urge this Committee to specifically limit the Secretary of HUD from administratively increasing the tax-like user fees on the FHA Mutual Insurance Program and GNMA. Rather, we recommend that this Committee reduce the FHA user fee by at least 1/2 percentage point or about $400 for the average new mortgage and reduce GNMA user fee modestly, as the FHA and GNMA fees already exceed cost and risk associated with these programs (see Attachment 2).

- We urge this Committee to rebate up to about $1,000 of excess premiums to past FHA Home Loan Guarantee purchases. The reserve has grown a huge $4 billion and is unjustified.

- We also urge this Committee to reject the newly proposed $10 million Fair Housing Initiatives Program and related programs until the Government clarifies whether it supports "equal access" or "discriminatory access" to housing and eliminates the double standard it has created to define illegal racial steering (see Attachment 3).

"USER FEES"

The REALTORS strongly oppose the imposition or increase of taxes on homeownership under the guise of "user fees" on FNMA, FHLMC, FHLB System, GNMA and FHA.

Already the Federal Government is violating the spirit if not the letter of the law by charging too high user fees for FHA. The rate should be and should have been 3.3 percent or lower to cover all costs and mutual insurance risk. Instead it is 3.8 percent and the Administration proposal is to raise it to 5.0 percent. The Mutual Insurance Fund has now increased to an obviously excessive $3 1/2 billion to $4 billion and is forecast to grow in all future years. The excess in the Fund should be refunded to households who have paid excessive premiums.

Unfortunately, the premium rate for the FHA Mutual Mortgage Insurance Fund can be increased administratively and the Secretary of HUD has indicated that he intends to increase the premium if the Congress does not instruct him differently.

We urgently request this Committee and the Congress direct the HUD Secretary:

(1) To limit any increases in the future to the true cost of the FHA insurance and lower the premium to 3.3 percent which is adequate to cover costs and risk of insurance in force.

(2) To gradually rebate the excess premiums to current participants with more than 5 years in the program, which could be a refund of about $1,000 for each household under the insurance coverage.

(3) To base insurance premiums on costs and risk separately, such as a different premium for fixed rate, adjustable rate and graduated payment mortgages.

The premium rate for Government National Mortgage Association can be increased administratively and may be scheduled to increase by October 1, 1985. The General Accounting Office says it is not necessary to increase GNMA fees because the existing fees cover operating costs and risk. If anything, the fees are too high as the reserves in the program are now about $1 billion and are estimated by the Office of Management and Budget to rise $0.2 billion each year. This Committee should consider reducing the fees not increasing them. In any case, the HUD Secretary should be prohibited from administratively increasing the GNMA fees.

The 5 basis point tax increases in 1986 and 8.3 basis point tax increases in FY 1987 on FHLBB, FHLMC and FNMA on all debt

(the mortgage-backed securities tax is proposed at 5 basis points in both years) are unjustified and anti-homeownership. The tax will be primarily passed on to homeowners in the form of higher mortgage cost and less readily available mortgage financing, and primarily for lower income households.

The tax increase could permanently cripple FNMA. FNMA is an essential part of the mortgage finance system, including providing funds and liquidity during recessions. FNMA's loss of one-quarter of a billion dollars during the last four years could have been doubled if the tax had been imposed.

Although the user fees on veterans are not the jurisdiction of this Subcommittee, we will be petitioning the Veterans' Affairs Committee to find spending cuts in place of the Budget Committee's suggestion of raising veterans' home loans user fees from 1 percent to 3.8 percent. The Congressional Budget Office has said the Veterans' Fund will be actuarially sound this year and through 1990. The 280% fee increase would likely reduce the number of veterans' home loans by 17,000 during 1986 and 85,000 during five years.

HUD is requesting a $10 million Fair Housing Iniatives Program (FHIP) before it has clarified the objective of those initiatives, thereby putting the cart before the horse. Included in the program is testing for discriminatory conduct in the sale and rental of housing without clarifying when conduct is discriminatory. Does the law require "equal opportunity to housing," does it allow or require some discrimination, such as

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integration maintenance programs by government and government-sponsored groups of the type intended by this proposed program? In opposition to "free choice," HUD has historically supported discrimination through "quota programs" and "racial mix goals" which obviously limit freedom of choice. The Starrett City Project in New York is the site of one of HUD's supported discriminatory "integration maintenance" programs which is only representative of this form of racial preference.

Not only must the goal of fair housing be clarified, but the existing double standard of conduct created by HUD must be abolished. The HUD General Counsel has stated that various race-conscious marketing practices constitute racial steering in violation of the Federal Fair Housing Act (Title VIII) if done by real estate brokers but has held those same practices to be entirely legal if it is done by private or community fair housing groups, including those who would receive funds and other support under the Fair Housing Initiatives Program (FHIP). Passage of this program without clarification of the fair housing goal and removal of this double standard will create a class of private and community vigilantes licensed and federally financed to harass, coerce, and even destroy legitimate real estate practitioners in the name of HUD-directed fair housing testing. Legal testing will become legalized extortion.

We strongly support fair housing and equal opportunity. We oppose this program as likely to produce less equal opportunity, greater discrimination and abuse.

Mr. Chairman, in conclusion, we support spending cuts to lower the federal deficit, we oppose tax increases on Home Loan Guarantee Programs and we oppose fair housing testing with a double standard and no clear objective.

ATTACHMENT I

BUDGET RECOMMENDATIONS

We strongly recommend that Federal government spending grow less than people's income and that the growth in tax receipts be limited to the growth in people's income until a balanced budget at high employment is achieved within 10 years. Specifically, we recommend:

(1) A freeze on all cost-of-living adjustments in FY 1986, including Social Security, and limit cost-of-living adjustments in subsequent years to follow the most generous practice of the competitive private sector -- allowing only up to 60 percent change in the Consumer Price Index (CPI) or, as a proxy, CPI less two percentage points.

(2) Freeze defense budget authority in real terms in 1986 and limit real growth to 3 percent in future years.

(3) Freeze real non-defense discretionary spending in 1986 and limit out year increases to inflation or less.

(4) Eliminate or curtail at least $16 billion of lower priority programs in 1986 and more in years beyond.

(5) Deficit reduction efforts should focus on spending reductions not tax increases of any kind, including user fees that are really tax increases.

ATTACHMENT II

"USER FEES"

The REALTORS® strongly oppose the imposition or increase of "user fees" on FNMA, FHLMC, FHLB system, FHA and VA. Our analysis has determined that these fees are not spending reductions but are actually revenue generators. They represent a blatant tax on federally-linked housing credit programs and a back-door tax on the homebuying public. More specifically:

- FNMA, FHLMC, FHLB system are "quasi-governmental" agencies created by Congress to provide stability and fluidity to the housing finance system. These institutions present no direct expense to the government, instead they facilitate important monetary exchanges in the system. Therefore, the 5 basis point fee imposed on all debt issued during FY 86 and the increase to 8.3 basis point for FY 87 (except mortgage-backed securities which remains indefinitely at 5 basis points) is an additional operating expense/tax. Analysis has determined that this tax will be ultimately borne by the homebuying public in the form of higher cost and less readily available mortgage financing.

  FNMA, an integral secondary mortgage market player, is currently suffering severe financial problems. Over the last four years, FNMA has lost $269 million after taxes which includes a loss of $57.4 million in 1984. In addition, their retained earnings since 1980 have declined from $818 million to $486 million. Caught between the financial need to restructure its balance sheet and the competitive pressures from FHLMC, FNMA will not be able to absorb the "user fee" and remain a financially viable entity.

ATTACHMENT II-2

The FHLB system has traditionally helped finance S & Ls' housing activities in addition to helping S & Ls meet liquidity demands. The recently published GAO study of the Grace Commission recommendations states that the implementation of a "user fee" would result in "technical problems" in deciding the exact "user fee" charge because of precarious market conditions. As such, GAO has decided to withhold any further comment until a legitimate study of the system can be made.

While the Senate Committee did not include increases in user fees for GNMA and FHA in the Budget Resolution, Secretary of HUD, Samuel Pierce, has already announced his intention to increase these fees administratively if Congress increases fees for VA and adds user fees for FNMA and FHLMC.

- GNMA had a revenue balance of $818.8 million at the end of fiscal year 1984 in its Mortgage-Backed Securities Investment Portfolio. Under the current fee structure, it is estimated that the reserve will increase on an annual basis by approximately $200 million. GAO's recent study states that it "does not believe an increase in the fee is justified or necessary in that the fee currently charged mortgage servicers (ie. 44/6) is already adequate to operate the program on a financially sound basis."

- FHA's Mutual Mortgage Insurance Fund (MMIF) is currently operating with a $3.5 billion reserve. The most recent HUD actuarial analysis concludes that the fund is in good financial condition and does not require additional monies to offset any potential expenses or liabilities. In fact, it has been suggested that the fee be decreased in light of its robust, financial condition.

ATTACHMENT II-3

- VA's increased "user fee" will clearly financially disadvantage those Veterans who are most in need of this program. Our analysis has shown that both the Administration's and Senate's fee increase will have a detrimental impact on the number of loan originations for the program with a coinciding negative impact on GNP.

Cumulatively, these fees represent a decisive blow against homeownership and the housing market. The Grace Commission described the effect of "federally sponsored credit" as "crowding out" private credit in capital markets. However, the recently published GAO study concludes that the Grace Commission Report "does not demonstrate how federal credit programs crowd out private sector investment more than other governmental activity. Allocating resources ... inherently crowds out resources that, by definition, could be directed elsewhere." In conclusion, the "user fees" are an unnecessary tax on homebuyers which is in direct conflict with the Federal government's traditional commitment to housing.

ATTACHMENT II-4

FNMA AVERAGE YIELD ON MORTGAGE AND
AVERAGE COST OF DEBT: 1979 - 1983

	1979	1980	1981	1982	1983	1984
Average net yield of mortgages purchased in period	10.11%	12.27%	15.38%	15.00%	12.65%	12.79%
Average cost of debt issued in period	10.72%	13.37%	16.22%	12.82%	10.07%	N/A
Average yield of mortgage portfolio at end of period	8.75%	9.24%	9.85%	10.73%	10.70%	10.93%
Average cost of debt outstanding at end of period	8.81%	10.11%	11.42%	11.38%	11.12%	11.55%
Difference between average cost of debt and yield on portfolio at end of period	.06%	.87%	1.57%	.65%	.42%	.62%

Source: Guide to Debt Securities. Federal National Mortgage Association. [November 20, 1984] pp. 21 and 26.

ATTACHMENT III

FAIR HOUSING INITIATIVES PROGRAM (FHIP)

An additional segment of the HUD budget request seeks to supplement existing Departmental fair housing efforts with a new program entitled the Fair Housing Initiatives Program (FHIP). In HUD's words this new program would provide the means to assist projects and activities designed to enhance compliance with the Federal Fair Housing Law and the laws of those state or local municipalities which have rights and remedies that are "substantially equivalent" to those at the federal level.

The Fair Housing Act, prohibits discrimination on the basis of race, sex, color, religion, or national origin in the sale, rental, provision of brokerage services, or financing of housing. HUD is seeking $10 million to fund this program.

HUD's new program seeks authority to make grants or enter into contracts with state or local governments and public or private organizations that are formulating or carrying out programs to prevent or eliminate discriminatory housing practices. And the Department contemplates providing funding for three distinct categories or "initiatives" under FHIP:

- Administrative Enforcement
- Private Enforcement
- Education and Outreach

INVESTIGATION BY "TESTING"

Under the Administrative Enforcement category HUD could fund projects that "develop fair housing testing capacities for State and local agencies" or projects which "conduct investigations of systemic discrimination for further processing..."

Under the Private Enforcement initiative, HUD wants authority to provide funding assistance to public or private organizations for projects that include additional testing components.

ATTACHMENT III-2

While this new Program seeks to justify itslf as an enforcement effort, it is in fact a gross and irresponsible delegation of enforcement responsibility to private groups and communities which have neither the competence nor the objectivity required to properly and fairly enforce the law.

The Initiatives Program represents, in our opinion, a substantial if not total abdication of the investigative and enforcement responsibility assigned by this Congress to HUD. And, in our view, the evil of this abdication is compounded by HUD's absolute failure and refusal to establish responsible and professional standards by which the testing contemplated by the Program will be conducted, the standards of conduct which the tests will attempt to measure and the criteria by which the presence or absence of illegal discrimination will be evaluated.

The National Association is not opposed to testing but it is vigorously opposed to the unsupervised, unstandardized, subjective, and arbitrary testing program which HUD proposes this Congress finance. This Program contemplates nothing less than the creation of a body of private and community vigilantes vested with a license to harass, coerce and even destroy legitimate real estate practitioners in the name of Fair Housing Testing.

Our concerns with HUD's persistent desire to "privatize" fair housing enforcement is not new. For years, the National Association has repeatedly requested HUD to develop and publish guidelines, standards and criteria for testing, testers and test evaluators and HUD has as frequently and as adamantly refused to do so.

CONFUSION IN THE LAW

The Association's concern with HUD's effort through this Program to "privatize" fair housing law enforcement is made even more urgent by the fact that there presently exists throughout the nation a fundamental dispute as to what "fair housing" means.

ATTACHMENT III-3

This dispute rages within and among minority groups such as the NAACP and Urban League, within and among civil rights groups such as the U.S. Commission on Civil Rights and the National Committee Against Discrimination in Housing, within and between communities and even within and between agencies of the Federal Government.

For over seven years now, the National Association has repeatedly requested this Congress, HUD and the Civil Rights Division to clarify whether the objective of fair housing established as the goal of Title VIII requires

- "equal opportunity in housing" or "integrated housing."
- "No discrimination"or"some discrimination."
- "No discrimination by citizens"or"systematic discrimination by government or government sponsored groups."

It is no secret that HUD has long been a supporter of "quota" programs and racial mix "goals" in support of integration even when those programs limit freedom of housing choice. Popularly known as "integration maintenance" programs, the Starrett City project in New York is but the most recent example of this HUD perspective.

But, of equal concern from the standpoint of this Budget request is the fact that at this very moment official HUD policy prescribes a double standard of conduct under the fair housing laws. The HUD General Counsel has expressly held that racial steering which would constitute violations of Title VIII if done by real estate brokers would be entirely legal if done by private or community fair housing groups--the very groups HUD now proposes to designate to enfore the fair housing laws.

There are very fundamental policy and procedural decisions which must be made by HUD, the Department of Justice and even by this Congress before any Program of the type proposed by HUD to localize and privatize fair housing enforcement should be put in place.

ATTACHMENT III-4

The safeguards against abuse represented by the requirement of substantial equivalency of fair housing laws is illusory since, as every real estate broker knows, equivalency in law is not necessarily or even probably equivalency in fact or in implementation.

If testing is to be fair and effective, it must be uniform, unbiased, professional, and consistent. Testers must be legally liable for misconduct and should not be provided with an incentive to find discrimination.

If testing is to be anything other than an instrument of legalized extortion and harassment, there must be a single standard of conduct by which legality is measured which does not vary according to the person or business tested or the community or the nature of the transaction.

We oppose the Fair Housing Initiatives Program because it cannot help but become an instrument of oppression, abuse and discrimination in the present state of the law and HUD policy and practice.

ATTACHMENT IV

NATIONAL ASSOCIATION OF REALTORS®
CONTRIBUTION TO DEFICIT REDUCTION SINCE 1980

- In 1980 we began the process -- now a relatively familiar practice for organizations concerned about the size of government -- by urging a 2% slower growth in spending each year.
- HUD with its housing and community development programs is reduced by three-fourths as a direct result of program reductions over the last four years.
- In 1981 and 1982 we lent our support to every significant action in both the House and Senate to reduce spending.
- Before it was fashionable to talk about freezing entitlement programs we recommended the THREE-FOR-ALL program which asked for a slowdown in the annual cost of living entitlement increases; along with it we urged a similar slowdown in tax indexing.
- We also supported passage of TEFRA in the mistaken belief we would get spending reductions greater than tax increases in that bill.
- In 1983 and 1984 we believed the President failed to uphold the promise to reduce federal spending and urged he veto the annual HUD Appropriations bills because they totaled over $8 billion over the budgets. In neither case did he veto those bills.
- Again this year we have urged spending reductions and urged other associations to join that effort.

ATTACHMENT IV-2

Appeared on January 19, 1981 in: The Washington Post, The Wall Street Journal, The New York Times, The Washington Star, Christian Science Monitor, Los Angeles Times, REALTOR NEWS and Washington Report.

THE AMERICAN PEOPLE DEMAND ACTION TO ATTACK INFLATION AND HIGH INTEREST RATES. AND THEY WANT IT NOW!

That was the message the American people delivered on November 4, 1980. It was so persuasive that it elected 18 new Senators, 74 new Representatives and one new President — Ronald Reagan — and gave them a strong directive for immediate action.

To the new administration and Congress the American people said: "We need help! Reduce inflation and the burden of government by slowing deficit spending and providing tax relief."

There was no mistaking the message — or its urgency. The American people want evidence that policymakers heard their message and felt its urgency.

Restoring prosperity.

Inflation, recession and excessive government are the major problems each of us faces.

The price we pay for inflation is staggering. It has eaten away the life savings of millions of hard-working people.

Inflation, recession and slow growth have caused the living standards of the average worker to decline.

Inflation and bad government policies have skyrocketed interest rates to the point that many people cannot afford to purchase homes or cars.

Money for modern buildings and equipment has disappeared, thus shrinking jobs, productivity and income.

And the American people have said "Enough!" The more than 700,000 individual members of the NATIONAL ASSOCIATION OF REALTORS® also have said "Enough."

The 2% Solution to a healthier economy.

We have proposed specific ways to fight inflation and help restore our standard of living.

Here is what the new President and Congress should do:

1. Slow federal spending by at least 2% in the current 1981 fiscal year from a likely $665 billion to $650 billion.
2. Slow federal spending in future years to a rate 2% less than the growth of people's income. Even then the government will spend as much as $715 billion in fiscal year 1982.
3. Insure that by 1984 the cost of federal government will shrink to less than 21% of people's income — a drop of more than two percentage points.
4. Direct one-half of any tax relief specifically to encourage savings and investment.
5. Stimulate savings by allowing $500 for individuals and $1,000 for couples of interest and dividends to be excluded from taxable income. Allow more funds to be set aside for Individual Retirement Accounts.
6. Through tax relief, encourage investment to overcome the rental housing shortage and to improve worker productivity.
7. Provide tax relief to offset the effect of inflation on personal income taxes.
8. Achieve a balanced budget at high employment by the end of fiscal year 1983.
9. Provide lower and more stable interest rates through Federal Reserve Board policies that mandate steadier growth of money supply and somewhat higher and more realistic money growth targets.
10. Reduce unnecessary and costly government regulations and repeal the President's authority to allocate credit.

How this platform will improve our lives.

If our government adopts these recommendations, here's what we can expect:

This Year

Inflationary expectations and interest rates would drop and continue to decline during the next 12 months.

Within Two Years

The rate of inflation and long-term interest rates would decrease two percentage points.

This would lower the average homebuyer's monthly payment by $150 ... and allow two million additional families to afford their own homes.

Within the Next Four Years

Home construction would accelerate and the shortage in housing would be reduced by two million units. An additional four million families would upgrade their housing.

New plant and equipment investment would increase by 20%, increasing output by more than 2%.

One million more jobs would be created.

Inflation would decrease from 13.5% in 1980 to less than 8%, and the average family would have $4,000 more in spendable income.

Why we're speaking out.

The NATIONAL ASSOCIATION OF REALTORS® represents professionals involved in all phases of real estate. Obviously, we have an important stake in our nation's economic health — and so do America's 55 million homeowners, several million would-be homeowners, 25 million renters, and owners of commercial, industrial and agricultural real estate. All have been hurt badly by the economic policies of the past few years.

As a result of these policies, people are required to work in out-of-date buildings with obsolete equipment and live in less than adequate housing. Home construction declined 52% from the fall of 1979 to the spring of 1980 and has not recovered yet. Existing home sales dropped 41%. Mortgage commitments fell 33%. Rental housing shortages exist in most cities.

Little wonder that the American people — who spend one-third of their income on housing — and businesses, which spend more than one-half of their income on improving workplaces and productivity — voted for a change.

Americans will be watching for actions and results.

Americans expect new policies and new priorities. And their mandate is for action now.

They will back tough decisions and actions that must be initiated in the days immediately ahead by the new administration and Congress.

That is the message of November 4, 1980.

NATIONAL ASSOCIATION OF REALTORS®

Working for America's property owners.™

REALTOR®

ATTACHMENT IV-3

NATIONAL ASSOCIATION OF REALTORS
Harley W Snyder, President
Jack Carlson, Executive Vice President

Albert E Abrahams, Senior Vice President, Government Affairs
Gil Thurm, Vice President & Legislative Counsel, Government Affairs

REALTOR®

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July 7, 1983

President Ronald Reagan
The White House
Washington, D. C. 20500

Dear Mr. President:

The NATIONAL ASSOCIATION OF REALTORS® supports your intention to veto each Appropriation bill which exceeds the 1983 level adjusted for inflation. Since we believe that the economic growth we are seeing today could not have been realized without the actions of the last two years to reduce federal discretionary spending, we do not want to see a loss of that spending control now.

We are extremely concerned with the lip service given to the issue of deficit reduction. We are convinced that significant action must be taken now to effect a decline in interest rates if they are to fall to their historic level of 3 percent above inflation. We urge you not to let the current evidence of economic growth obscure the fact that maintaining interest rates at this high level, or even higher, threatens the length and strength of the economic recovery.

We expressed our concern by actively supporting Congressman Phil Gramm's efforts to gather House support for your Appropriations vetoes in advance of your actions. We think the Gramm letter is not as strong as the deficit problem warrants, and even though housing may very well be adversely affected short-term, we urge you to veto the Appropriation bill for the Department of Housing and Urban Development. This one Appropriations bill exceeds your budget request by $5.9 billion. It is likely that all of the other twelve Appropriations bills combined will not exceed your budget to the extent of this one bill.

You have requested structural changes in HUD programs which have the potential of providing necessary housing with more controllable expenditures than the staggering long-term costs associated with existing programs. We would like to support you in this effort. However, the best, perhaps the only, way to get Congress to seriously consider such reforms in a HUD Authorization bill is if they are faced with a threatened veto of the HUD Appropriation bill. While we recognize the difficulties facing a HUD Authorization bill this year, we believe it is a reasonable strategy to bring about change in the policy contained in the Authorization bill. Perhaps it can only be accomplished by creating the urgent situation of an Appropriations veto.

While the control of domestic discretionary spending can best be done through a policy of vetoing Appropriations bills, in the long run Cost of Living Adjust-

ATTACHMENT IV-4

ments (COLAs) must be reduced now to curtail future, massive growth of indexed spending programs. We suggest that COLAs be reduced below the full change in the Consumer Price Index (CPI). This is fully merited and fair to compensate for the excessive previous adjustments that are still reflected in the current index level, and to recognize that the index is deficient in its failure to measure changes in the specific goods and services purchased by consumers. Further, it would more closely reflect private industry practice in COLAs for workers. For equity, the indexation of personal income tax brackets could be coupled with similar modification in relation to the CPI. With your support, Congress should consider such a provision being included in any changes in tax and spending Resolutions and Reconciliation bills during the next three months.

We realize the First Budget Resolution for fiscal 1984 does not instruct Congress to make such significant changes in COLAs, but neither does the Resolution require a control of Appropriations bills. We believe that this year the First Budget Resolution should be considered a ceiling for federal programs instead of a floor.

We are making these suggestions to show that we are serious about deficit control. While the actions we propose are not necessarily the only possibility, it is important to take some action to reduce spending more than we raise taxes. Establishing a policy of requiring $2 in spending reduction for each $1 of tax increase necessary for deficit reduction provides essential assurance that we are not returning to the days of higher spending and higher taxation.

Sincerely,

Harley W. Snyder
President

ATTACHMENT IV-5

REALTOR®

NATIONAL ASSOCIATION OF REALTORS®

Donald H Treadwell President
Jack Carlson, Executive Vice President

Albert E Abrahams Senior Vice President Government Affairs
Gil Thurm Vice President & Legislative Counsel Government Affairs

Government Affairs Division
777 14th Street N W Washington D C 20005-3271
Telephone 202 383 1000

July 16, 1984

President Ronald Reagan
The White House
Washington, D. C. 20500

Dear Mr. President:

The NATIONAL ASSOCIATION OF REALTORS® strongly urges you to veto the Appropriations bill for the Department of Housing and Urban Development. Despite the fact that our membership is affected favorably by some of the provisions contained in the HUD bill more than in any other appropriations bill, we urge a veto since it exceeds your original budget request by $1.875 billion. It is important to indicate by a veto that no excessive spending will be tolerated this year.

We are extremely concerned that the issue of deficit reduction, through spending restraint, is receiving only lip service. In order to reduce interest rates, we strongly believe that significant deficit reduction action must be taken. We urge you not to let the current evidence of economic growth obscure the fact that maintaining interest rates at their current level, or allowing them to edge even higher, threatens the length and strength of the economic recovery.

The promise of reduced interest rates and favorable market reaction through passage of a deficit down-payment package has not been realized. Interest rates have gone up instead. Obviously the small size of the down-payment is a key reason. But also, the modest down-payment was achieved disproportionately with tax increases, including tax increases to disadvantage investment, and 20 percent of all tax increases were disproportionately placed as a burden on real estate.

We strongly deplore the trend of taking incentives away from the private sector while allowing the public sector to increase contrary to your own budgetary goals. Indeed, the tax bill Congress just enacted contains an erosion of your 1981 Economic Recovery Tax Act by lengthening the depreciation period from 15 to 18 years for real estate. We supported your policy of reducing spending in the public sector and increasing incentives for private sector spending and investment. We supported ERTA as the best way to stimulate capital investment, reduce obsolescence of plant and equipment, and encourage a lasting economic recovery -- it still is.

ATTACHMENT IV-6

For that reason we are dismayed that Congress, with the Administration's blessing, chose this year to increase public sector spending in the HUD appropriations bill and to decrease private sector incentives in the tax bill. The HUD bill alone has $1.875 billion more than you requested while the tax bill increases taxes on the Accelerated Cost Recovery System for real estate by $2.6 billion.

For these reasons, Mr. President, we strongly urge you to refuse this tradeoff at the expense of the private sector, and veto the HUD appropriations bill before you.

Sincerely,

Donald H. Treadwell

Donald H. Treadwell
President

ATTACHMENT IV-7

NATIONAL ASSOCIATION OF REALTORS

REALTOR®

John R Wood, President
Julio S Laguarta, First Vice President
Jack Carlson, Executive Vice President

925 15th Street, N.W., Washington, D.C. 20005
Telephone 202 637 6800

January 21, 1981

Dear Association Member:

For more than 14 months now, the NATIONAL ASSOCIATION OF REALTORS®, on behalf of its more than 750,000 members, has been stressing the effect of poor economic policies on the housing industry.

However, it is not just our industry that has suffered and continues to be damaged by high inflation. Virtually every area of our nation's economy is feeling the burden of the poor mix of fiscal and monetary policies.

On both January 16 and January 19 we offered recommendations to the new administration and Congress and we stressed that we are willing to sacrifice in areas that affect housing and other real estate because in the long run we are confident our industry will benefit.

I am taking this opportunity to ask you to join in this approach -- sacrifice now for future economic strength -- and have enclosed the advertisement we employed and some of our material. First, insist that our government slow overall spending, reduce the federal deficit, provide tax relief directly for encouraging savings and investment as proposed in the attached advertisement we placed in major newspapers January 19. Second, do your part by recommending programs that benefit your industry be trimmed, as we have.

If we can be helpful to you, please call me at 202/637-6891.

Together we can get our economy and our industries back on track. And now is the most appropriate time to begin.

Sincerely,

Jack Carlson

Jack Carlson

Enclosures

ATTACHMENT IV-8

REALTOR®

NATIONAL ASSOCIATION OF REALTORS®

David D. Roberts, President
Clark E. Wallace, President-elect
William M. Moore, First Vice President

Jack Carlson, Executive Vice President

777 14th Street, N.W., Washington, D.C. 20005
Telephone 202 383 1000

December 12, 1984

Dear Association Member:

There is a consensus across the country and within the government that the federal deficit must be reduced to permit lower interest rates, to increase investment and to provide greater capacity for the economy to grow, thus creating more jobs and providing a higher standard of living and quality of life for all Americans.

The Executive Branch is embarking upon a major effort to lower the deficit by slowing, stopping or reversing the growth of government programs and eliminating programs. The Legislative Branch leaders have indicated their general or specific support for this approach.

We feel it is imperative to join vigorously in this effort to cut low-priority government spending and to do so now and in 1985 during the fiscal year 1986 budget process. We feel, as we did in a letter we shared with you January 21, 1981 (attached), that we not only should support across-the-board spending cuts or freezes but also we must support specific program spending reductions or eliminations, including cuts in programs of interest to our constituencies as evidence of our willingness to identify low-priority programs everywhere. We felt the same way during 1981 and supported more than a one-third cut in budget authority for discretionary programs that were of particular interest to our constituency. We pledge to support such additional spending cuts now and we urge you to do the same.

As we succeed in slowing the growth of government spending we will reduce the pressure to lower the deficit by tax increases, such as those approved in 1984 that are harmful to savings and investment and thus slow the growth of jobs, sales and the American standard of living.

Sincerely,

David D. Roberts
President

Jack Carlson
Executive Vice President

The NATIONAL ASSOCIATION OF REALTORS® is comprised of more than 1,806 local boards of REALTORS® located in every state of the Union, the District of Columbia, and Puerto Rico. Combined membership of these boards is over 675,000 persons actively engaged in sales, brokerage, management, counselling, and appraisal of residential, commercial, industrial, recreational and farm real estate. The activities of the Association's membership involve all aspects of the real estate industry, such as mortgage banking, home building, and commercial and residential real estate development, including development, construction and sales of condominiums. The Association has the largest membership of any association in the United States concerned with all facets of the real estate industry.

Elected officers are: President David D. Roberts, Mobile, Alabama; President-elect Clark E. Wallace, Moraga, California; First Vice President William M. Moore, Denver, Colorado; Treasurer Phillip C. Stark, Madison, Wisconsin.

The Executive Officer is Jack Carlson.

The Senior Vice President, Government Affairs is Albert E. Abrahams and the Vice President and Legislative Counsel, Government Affairs is Gil Thurm.

Headquarters of the Association are at 430 North Michigan Avenue, Chicago, Illinois 60611. The Washington Office is located at 777 14th Avenue, N.W., Washington, D.C. 20005. Telephone: (202) 383-1000.

REALTOR®

Senator HECHT. Thank you very much.

Senator Riegle and Senator Cranston, you have no statements at all to make?

Senator RIEGLE. Not at this time, Mr. Chairman.

Senator CRANSTON. No, I do not, and I may not be able to stay long enough to hear all the statements. I would like to, but I might not be able to.

Senator HECHT. Senator Sasser, did you want to make an opening statement?

OPENING REMARKS OF SENATOR SASSER

Senator SASSER. Yes, Mr. Chairman.

I want to congratulate the new chairman of the Housing Subcommittee, Senator Hecht, on this the occasion of his first series of hearings. I think you have taken a leadership role in Federal housing policy, Mr. Chairman, at a very interesting time in the evolution of Federal housing programs.

And I want to extend a special greeting this afternoon to a longtime friend and Tennessean I am very proud of, who is testifying here today on behalf of the National Association of Home Builders. Jim Fischer, of Nashville, TN, is one of the most accomplished and articulate members of the home building industry, and I think we are all going to learn a lot from what he has to say here today, Mr. Chairman.

He has been highly regarded in the home building industry in our State and the Southeastern United States for 25 years, and I am delighted that the industry is now getting the benefit of his leadership and insight at the national level as we have had in Tennessee for a number of years.

Senator HECHT. Thank you.

Senator SASSER. Thank you, Mr. Chairman, and welcome Jim Fischer.

Senator HECHT. With that buildup, I will introduce him. Mr. Fischer. [Laughter.]

Senator CRANSTON. May I say that I can't claim Mr. Maxwell as a total Californian but he was in California for a period of time doing great work there as he's doing great work now for Fannie Mae and I welcome you to this hearing.

Senator HECHT. When it comes time to introduce him I'll let you do the honors. Mr. Fischer.

STATEMENT OF JAMES FISCHER, VICE PRESIDENT AND TREASURER, NATIONAL ASSOCIATION OF HOME BUILDERS, NASHVILLE, TN

Mr. FISCHER. Mr. Chairman, Senator Riegle, Senator Sasser, and members of the subcommittee, my name is Jim Fischer and I am pleased to appear before you today on behalf of the 130,000 members of the National Association of Home Builders. I am privileged to serve as vice president-treasurer of NAHB.

I am from Nashville, TN, and I'm a builder of single-family as well as multifamily housing.

Mr. Chairman, we are pleased that you have agreed to serve as chairman of this important subcommittee. Since you entered the

Senate, you have been fiscally prudent and a good friend of the housing industry and we look forward to a long and productive relationship with you and your highly competent, professional staff.

If you will permit me a personal observation, my Senator, Jim Sasser, has long been a strong supporter of affordable housing both in this committee and as a leader on the mortgage revenue bond financing. I am proud that he is representing the great State of Tennessee.

As you are well aware, the Federal Government for the past 50 years has helped to shape our national housing policy by playing at least five major roles in partnership with the private housing industry, providing Federal tax incentives to promote home ownership and affordable rental housing, Government assistance to establishing specialized financial institutions, Federal insurance and credit programs, assistance for low- and moderate-income households, programs to revitalize neighborhoods and upgrade infrastructure.

With that as a background, I would like to focus on national budget priorities. For many years NAHB has spoken out on the need to reduce the deficit and we have supported spending cuts which include severe reductions in housing-related programs and, reluctantly, tax increases in the past 3 years despite the negative impact on housing.

BUDGET CUT BY 50 PERCENT

As you know from fiscal years 1980–85, the budget authority for the Department of Housing and Urban Development was cut by over 50 percent. Why were we willing to see this occur? Because housing is the most credit sensitive sector in the economy. And an economic recovery cannot be sustained over the long term without a major deficit reduction plan. But we have still not seen a creditable deficit package. And our national debt continues to rise.

That is why we support and intend to work for a total spending freeze, a comprehensive across-the-board freeze, including domestic discretionary spending, all entitlement programs, and national defense.

Additionally, we are prepared to say that we accept a reduction of 10 percent across the board in all domestic discretionary spending programs beyond the freeze in order to reach a goal of $50 billion in deficit reduction.

Unfortunately, the housing related programs in the budget are once again being singled out for deep reductions or elimination. According to our estimates, housing's shares of the administration's proposed budget reductions represent about $4 billion or 25 percent of the proposed cuts in discretionary spending.

Given the enormous reduction in housing-related programs since 1980, this is simply not fair to the growing needs of low-income families, the elderly, and rural Americans.

If these budget reductions were enacted, the HUD budget would drop from 5.3 percent of the total Federal budget in fiscal year 1980 to 0.7 percent in fiscal year 1986.

More specifically, we support continuation of the rural housing programs of the Farmer's Home Loan Administration. The admin-

istration's fiscal 1986 proposed budget and action by the Senate Budget Committee, would terminate all new construction for rural housing including the Section 502 Single-Family Program and the Section 515 Multifamily Program.

We strongly urge the subcommittee to reauthorize the Farmers Home Adminstration [FHLA] loan programs which have helped nearly 2 million families, the elderly, and the handicapped, afford housing in rural areas.

Mr. Chairman, rural housing programs have already taken sizable cuts. The total number of units assisted by FHLA has declined 30 percent from fiscal years 1980–85.

We recognize there is a need for program improvement and acknowledge that these programs have not operated with uniform effectiveness throughout the country.

We would be pleased to work with the subcommittee in any way we can to both lower program costs and to improve the current delivery system.

We support no increase in user fees on loans guaranteed through the Veterans' Administration and loans insured through the Federal Housing Administration. These would increase monthly payments for veterans, first-time home buyers, and other families, at the low end of the housing market.

Fees would also be increased on Ginnie Mae mortgage-backed securities and would be imposed for the first time on Fannie Mae and Freddie Mac, further increasing the cost of home ownership.

In reality, the application of these fees amounts to a hidden tax on users of Government associated credit programs. Put simply, it is a tax that falls most heavily on those who can least afford it, the first-time home buyer, and the moderate-income home buyer.

Mr. Chairman, our written testimony provides detailed comments in a number of areas of importance to this year's housing authorization bill, including housing for the elderly, energy standards for mobile homes, multifamily housing preservation, multifamily mortgage limits, and the regulatory review process.

Each of these issues could probably be the subject of its own hearing and I urge you to review our testimony and work with us as you develop legislation later this year.

Senator HECHT. You have 1 minute to round it out.

Mr. FISCHER. Mr. Chairman, we are looking to the knowledgeable housing advocates on this committee to assist in the effort to maintain essential tax incentives for housing.

We would respectively suggest that a hearing on the impact of tax reform on housing by this subcommittee may prove to be very useful. Such a hearing could explore the longstanding economic and social policy to promote housing through the Tax Code.

Mr. Chairman, I wish you well in the effort of this committee, Congress, and the administration, to determine the appropriate Federal role in promoting home ownership and affordable rental housing.

Your decisions will have a major effect on future home buyers, homeowners, and renters in the years ahead. We stand ready to work with you on that vital effort.

I would be glad to answer any questions.

[The complete prepared statement follows:]

STATEMENT OF
JAMES M. FISHER, Jr., Vice President/Treasurer

THE NATIONAL ASSOCIATION OF HOME BUILDERS

before the

UNITED STATES SENATE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

on

FY'86 HOUSING AUTHORIZATION

MARCH 25, 1985

Mr. Chairman, Senator Riegle, Senator Sasser and Members of the Subcommittee:

My name is Jim Fischer and I am pleased to appear before you today on behalf of the 130,000 members of the National Association of Home Builders (NAHB). I am privileged to serve as Vice President/Treasurer of NAHB. I am from Nashville, Tennessee and am a builder of single-family as well as multifamily housing. I also serve as a member of the Metropolitan Nashville Planning Commission.

Mr. Chairman, we are pleased that you have agreed to serve as Chairman of this important Subcommittee. Since you entered the Senate, you have been a fiscally prudent and good friend of the housing industry. And we look forward to a long and productive relationship with you and your highly competent professional staff.

If you will permit me a personal observation, my own Senator Jim Sasser has long been an advocate of affordable housing both on this Committee and as a leader on mortgage revenue bond financing. I am proud that he is representing the great state of Tennessee.

As you are well aware, the federal government for the past 50 years has helped to shape our national housing policy by playing at least five major roles in partnership with the private housing industry, providing:

- Federal tax incentives, which have promoted homeownership and the construction of affordable rental housing.
- Government assistance in establishing specialized financial institutions. Government-chartered thrift institutions have channeled funds into housing and given homebuyers access to affordable mortgage credit.
- Federal insurance and credit programs. Innovative programs have reduced risks to lenders and investors, improved the operation of the housing market, and thus expanded homeownership and rental opportunities.
- Assistance for low- and moderate-income households in the production of housing. A variety of programs have provided direct production assistance as well as interest rate reductions.
- Programs to revitalize neighborhoods and upgrade infrastructure. Decaying neighborhoods have been revitalized by programs that renovated areas, cleared slums and upgraded infrastructure facilities.

While federal programs have changed and evolved over time, the bipartisan national commitment to decent housing has been maintained. Today we stand at an historic crossroads. Shifting government priorities and policies, changes in household composition and housing demand, proposed tax reform, runaway federal deficits,

financial deregulation and industry innovation, and technological advances have generated sweeping and fundamental change for homebuilders as well as housing consumers.

Budget Priority for Housing

With that as a background, I would like to focus on national budget priorities and the de-emphasis of housing in the federal budget.

For many years, NAHB has spoken out on the need to reduce the deficit. And we have supported spending cuts which included severe reductions in housing-related programs, and, reluctantly, tax increases in the past three years despite their negative impact on housing. As you know, from FY'80 to FY'85 the budget authority for the Department of Housing and Urban Development was cut by over 50 percent; over the same period, budget authority for national defense more than doubled (see Exhibit A). In terms of new production, the number of assisted housing starts dropped from 151,000 units to 32,000 units (see Exhibit B). Why were we willing to see this occur? Because housing is the most credit-sensitive sector in the economy, and an economic recovery cannot be sustained over the long term without a major deficit reduction plan. But we have still not seen a credible deficit package ... and our national debt continues to rise.

That is why we support and intend to work for a total spending freeze -- a comprehensive, across-the-board freeze including domestic discretionary spending, all entitlement programs and national defense (see Exhibit C). A freeze of that magnitude could save up to $38.2 billion in outlays in FY'86 ... and $82 billion in

FY'88, according to Congressional Budget Office estimates (see Exhibit D). We did not come to this position lightly or without healthy discussion by our Board of Directors and leadership. We believe that if we are serious about deficit reduction, the pain must be spread evenly, taking a little out of each program, so that no one suffers too greatly.

We also realize that a freeze alone will not reach the goal for FY'86. But we have seen in the past few weeks that most of the programs proposed to be "zeroed out" or severely cut in the Administration's budget have important constituencies. And, yes, many of these programs serve useful public purposes and provide that "safety net" for the poor. We cannot come here, Mr. Chairman, to say that housing assistance is more important than mass transit ... or Job Corps ... or sewer construction grants. But we are prepared to say that we will accept a reduction of 10 percent across-the-board in <u>all</u> domestic discretionary spending programs beyond the "freeze" in order to reach a goal of $50 billion in deficit reduction. Our preliminary analysis shows that an additional 10 percent cut in domestic spending beyond the freeze would save an additional $17 billion in FY'86.

Unfortunately, the housing-related programs in the budget are once again being singled out for deep reductions or elimination. According to our estimates, housing's share of the Administration's proposed budget reductions represents about $4 billion or 25 percent of the proposed cuts in discretionary spending. Given the enormous reductions in housing-related programs since 1980, this is simply not fair or responsive to the growing needs of lower-income

families, the elderly or rural Americans. If these budget reductions were enacted, the HUD budget would drop from 5.3 percent of the total federal budget in FY'80 to 0.7 percent in FY'86 (see Exhibit A.)

More specifically, we oppose these elements of the Administration's budget:

- Termination of all rural housing and development assistance provided by the Farmers Home Administration.
- Increased user fees on loans guaranteed through the Veterans Administration and loans insured through the Federal Housing Administration. These would increase monthly payments for veterans, first-time homebuyers and other families at the lower end of the housing market. Fees would also be increased on GNMA mortgage-backed securities, and would be imposed for the first time on FNMA and FHLMC, further increasing the cost of homeownership.
- A two-year moratorium on housing assistance programs, including newly constructed or rehabilitated housing for low-income families and the elderly, as well as housing vouchers.
- Termination of the Housing Development Grant Program and the Urban Development Action Grant Program.
- Termination of federal grants for sewer construction, a prerequisite for new housing development.
- Termination of the Job Corps Program of the Department of Labor, which trains young people for jobs in the residential construction trades.

As we have made clear already, we do not quarrel with the need to reduce spending, but we question the disproportionate share of cuts proposed for housing by the Administration in the FY'86 budget.

Low-Income Housing Need

As part of NAHB's long range planning effort begun last year, we examined the acute housing affordability problems of the poor. We found that:

> "Housing affordability is a more formidable problem among the rising number of Americans living below the poverty line. The number of renter households with real incomes below $5,000 (measured in 1980 constant dollars) nearly doubled from 1974 to 1981. Households with children, especially those headed by single-parent females, contributed to an increasing share of this low-income group. In 1981, more than 71 percent of low-income renters were paying more than 35 percent of income for rent; 11.6 million Americans lived in substandard housing and 16.5 million lived in rundown neighborhoods. The housing, economic and social problems of the nation's under-class are expected to worsen in the future as a growing segment of the population falls below the poverty line. Shortages of low-cost units will make it impossible for some households to obtain any type of housing. Even the most modest rental apartment will lie beyond the reach of a growing number of low-income Americans."

In addition, our report estimates that, at a minimum, 250,000 new or substantially rehabilitated units are needed annually during the next 15 years to upgrade the nation's substandard housing stock. If the government's commitment to assist America's low-income and disadvantaged families to obtain decent housing is to be continued, it will require some unforeseen increase in the scope of federal, state and local government assistance in the future.

NAHB will conduct a major study during 1985 on low-income housing, as recommended in the Long Range Planning Report that we recently completed. The study will address two major topics. First, the problems of providing decent housing for the poor and disadvantaged who cannot compete in today's market environment. In this part of the study, we will attempt to identify a range of alternatives that utilize various degrees of federal, state or local governemnt involvement, possibly in combination with the private sector under a range of public/private partnerships. The second part of the study will examine the issues involved in maintaining, managing and preserving the existing stock of government-assisted and public housing units. This housing stock represents a major investment in housing resources and some methods must be found to preserve this housing as decent, well-maintained and well-managed shelter for low-income families and the elderly.

Mr. Chairman, we will be seeking input from this Subcommittee and its talented staff as our analysis is developed. In addition, we will be pleased to share the study and its recommendations with you as soon as it is completed.

Rural Housing

Mr. Chairman, we strongly urge this Subcommittee to reauthorize the Farmers Home Administration (FmHA) programs which have helped nearly two million families, the elderly and the handicapped afford housing in rural areas. The conditions which gave rise to authorization for FmHA to make housing loans in 1949 still exist today, but the commitment to providing housing in rural areas is in serious doubt.

We had about 200 rural builders in Washington earlier this month representing over 15,000 builders across the country who build in rural areas. They were here to support the continuation of rural housing programs and to oppose the Administration's proposed transfer of rural housing programs to HUD.

The Administration's FY 86 budget proposal and action by the Senate Budget Committee would terminate all new construction for rural housing including the Section 502 single-family program and the Section 515 multifamily program. The only money provided for rural housing in the Administration's FY 86 budget proposal is for servicing. The $30 million budgeted for the Section 502 program is simply for repairs and the $50 million provided for rental assistance is to service or extend contracts for 4,550 existing units.

The following chart shows the impact of the reduction in funding for these programs.

Rural Housing Programs

Program		FY'85	FY'86	Percent Decrease FY 85
Section 502	Amount	$2.3 billion	$30 million	- 98.7
Single Family	New Construction	33,300 units	0 units	- 100
Homeownership	Existing	19,090 units	0 units	- 100
Program			(repair only)	
Section 515	Amount	$900 million	$0	- 100
Multifamily	New Construction	24,225 units	0 units	- 100
Rental Program	Existing	275 units		- 100
Rural Rental	Amount	$168.25 million	$50 million	- 70.3
Assistance	New Construction	4,750 units	0 units	- 100
	Existing	10,500 units	4,550 units	- 56.7

Need for Rural Housing

Continuation of the rural housing programs administered by the Farmers Home Administration can be well justified:

-- Rural housing programs serve only families and the elderly who are unable to obtain credit from private lenders.

-- Rural housing programs truly serve low income people. Under the Section 515 program, almost 75 percent of the tenants assisted have incomes below $6,000. Under the Section 502 program almost 35 percent had incomes below $10,000 and the law now states that 40 percent of all Section 502 borrowers must have incomes at or below 50 percent of the area median.

-- Rural housing under the Section 502 program is a limited assistance program; as the borrower's income goes up, the assistance is reduced. When the home is sold, the assistance is recaptured. Assistance under the Section 515 program is also reduced as the ability to pay increases.

-- Rural housing programs provide growth to the economy. For every FmHA unit projected to be built this year, 1.4 man years of employment are created. The projected 60,000 units to be built this year will produce almost a billion dollars in taxes and wages.

-- Rural housing programs are in great demand. There are over 2 million substandard units of housing in rural areas.

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HUD Transfer

There is no question that the transfer of rural housing programs to HUD would be an ineffective way of servicing the housing needs of rural people. It is not really a transfer of programs to HUD; the existing Farmers Home programs are to be terminated. Rural and urban areas would then share whatever money is appropriated for HUD programs on a 50-50 basis. Both rural and urban America would lose under this system.

The voucher system projected to take care of both rural and urban needs will not be effective in rural areas where there is frequently insufficient housing for vouchers to work. HUD's Section 202 program is restricted to the elderly. Over 50 percent of FmHA's Section 515 program currently serves families.

In addition, Farmers Home has an existing delivery system which includes 1,930 county offices, 270 district offices, and 46 state offices to service rural people. Families needing assistance would have to travel three or four hundred miles in some cases to be accommodated by HUD's offices. HUD has no experience in rural areas and could not replicate the FmHA delivery system.

It should also be emphasized that rural housing needs cannot be looked at as simply an extension of urban needs. Proportionately, there are greater levels of poverty, a greater lack of credit, and more inadequate housing stock in rural areas.

Lack of Credit in Rural Areas

It has been suggested that rural housing credit needs be financed by the private sector. Substituting the FmHA direct lending system with guarantees to private banks to make loans raises a number of serious questions:

- Many rural areas have no banks. Over 500 counties have no federal savings and loan institution.
- A loan guaranty program has already been tried in rural areas and was not successful.
- People in rural areas cannot afford the program without additional credit assistance.
- Rural banks do not have sufficient savings or desire to make loans to low-income people. Rural areas have only 17 percent of the nation's savings, and banks are more likely to make more profitable use of their portfolio than to lend to low income people for housing.
- Rural banks faced with foreclosure problems for agriculture loans may not be in a position to make housing loans.
- It would be impossible for rural banks to immediately take over this lending function. Existing federal credit programs should not be phased-down until such private sector alternatives are in place and proven workable.

Rural Housing Has Already Taken Its Share of Cuts

Mr. Chairman, rural housing programs have already taken sizeable cuts. The total number of units assisted by FmHA has declined 30 percent from FY'80 to FY'85. The following charts show the program reductions.

Total Incremental Units Assisted
(Fiscal Years)

1980	1981	1982	1983	1984	1985 (estimate)	1986 (Admin. Budget)
150,169	128,586	113,440	93,261	86,638	104,600	4,550

Source: FmHA; compiled by NAHB.

The number of units provided under the Section 502 Program declined by more than one-third from FY'80 to FY'85.

The number of units provided under the Section 515 program declined by 23 percent from FY'80 to FY'85, with a similar drop in rental assistance.

Major Programs/Units
(Fiscal Years)

	1980	1985 (estimate)	1986 (Admin. Budget)	Percent Decrease 1980/1985	Percent Decrease 1980/1986
Section 502	82,247	52,390	0	-36.3%	-100%
Section 515	33,100	25,500	0	-23.0%	-100%
Rural rental assistance	20,000	15,250	4,550	-23.8%	-77.5%

Source: FmHA; compiled by NAHB.

Program Improvement

Mr. Chairman, we recognize that there is a need for program improvement and acknowledge that these programs have not operated with uniform effectiveness throughout the country.

Attached to my statement, Mr. Chairman, are resolutions passed by our Board of Directors in January which would improve the FmHA delivery system (see Exhibits E, F & G). They call for:

- A better system of disposing of the FmHA inventory. The high volume of inventory homes slows down the rate at which FmHA will make new loans.
- The use of private fee inspectors and appraisers to accommodate the shortage of personnel in FmHA offices and elimination of the current priority system to speed up application approval.
- Quarterly pooling of FmHA funds. This will better help use allocations in a timely manner critical to meeting the housing needs of rural people.

I have also attached our comments concerning the FmHA proposed rule for subdivision approval (see Exhibit H). We urge FmHA to follow the lead of the Veterans Administration (VA) and the Federal Housing Administration (FHA) in eliminating the subdivision approval procedure. This would be in compliance with the 1983 Housing Act, which calls for complete subdivision reciprocity among the three agencies.

We would be pleased to work with the subcommittee in any way we can to both lower program costs and to improve the current delivery system.

Mortgage Finance

Mr. Chairman, the proposed increase in the FHA, VA, and GNMA fees, and the imposition of a fee on FNMA, FHLMC and FHLBB system requested by the Administration is an increase which we can ill afford during this time of high interest rates. The ultimate result of these "user fees" will be to transfer funds from the housing sector and to raise the price of remaining mortgage money.

In reality, the application of these fees amounts to a hidden tax on users of government-associated credit programs. Put simply, it is a tax that falls most heavily on those who can least afford to pay it ... the first-time homebuyer and the moderate income homebuyers.

The first-time homebuyer at the lower end of the market is in a very delicately balanced financial position. Even a slight rise in interest rates disqualifies many potential purchasers. The two biggest obstacles this group must overcome when purchasing a home are sufficient cash at settlement and an affordable monthly payment. Mr. Chairman, the user fee proposals will make it more difficult to overcome the very obstacles which these programs were designed to alleviate.

The Senate Budget Committee package adopted last week would alter the fee structure on all programs needing legislation to effect a change. FHA and GNMA could be changed administratively. In fact, Secretary Pierce has recently reaffirmed his intent to restructure the split on GNMA fees and to raise the FHA insurance premium if Congress agrees to impose user fees on VA, FNMA and FHLMC. The GNMA fee restructuring will amount to a nine basis point loss to the servicer. That is not a loss which will be absorbed by the servicing institution but will be passed on to the homebuyer.

The imposition of fees on FNMA and FHLMC will have the same pass-through effect on the homebuyer. In addition, these fees may preclude FNMA from remaining financially viable in the long-term. FNMA is predominantly a portfolio lender and issues debt to purchase

low-interest bearing mortgages from financial institutions. The Administration proposal, adopted by the Budget Committee, would impose an annual fee of five basis points on all debt issuance including mortgage-backed securities and participation certificates. While that fee remains indefinitely at five basis points on mortgage-backed securities, the fee is scheduled to increase to 8.3 basis points on other debt issuance in 1987. The fee would also be applied to some rollover debt.

Likewise, the fee would apply to bonds issued by the FHLBB system. The bonds are issued to finance advances to thrifts which the thrifts use for conventional mortgage loans. If the fee increase results in more costly thrift advances, that increase will be passed on in the form of more expensive mortgage money for fewer purchasers.

Under the Budget Committee action, user fees on VA loans would rise from one percent of the loan amount to 3.8 percent. That increase would add roughly $19 to the monthly payment or $1,760 at settlement on a $60,000 mortgage financed at 12.5 percent. An additional fee would be added for the GNMA restructuring to cover the servicer's loss. Many veterans with marginally approvable incomes will be priced out of the market, the volume of VA loan business will be reduced and the government would therefore generate very little in additional revenue.

I would like to raise another issue regarding affordable financing. Some concerns have been raised about builder buydowns. We are very concerned about the potential consequence of proposals to adjust the appraised values of homes in an effort to factor out

the values of various financing packages provided by home sellers. Affordable financing has become a major component of the cost of a home, and we feel that standard financing concessions should have little impact on the relative prices of homes as long as these concessions are not inordinately large.

NAHB is aware of the recent increase in foreclosure claims in mortgages. However, the amount realized in a foreclosure sale should not be used as evidence that the original appraisal was faulty. Lenders commonly discount property by a large amount to facilitate a quick sale and avoid carrying costs. Careful loan underwriting is a far more important factor in limiting credit risk. There seems to be little or no evidence that 3-2-1 buydowns or full-term buydowns of comparable magnitude have been a significant factor in foreclosures.

Energy Standards for Mobile Homes

In January of this year, NAHB's Board of Directors went on record in support of legislation to require HUD to set energy standards for housing covered by the Manufactured Housing and Construction and Safety Standards Act at levels equal to those required by HUD for site-built homes. We believe the standards currently imposed for HUD code manufactured housing are far too low in comparison to site-built homes.

Support for these increased standards is broad-based, representing consumer, utility, rural housing, and energy conservation groups.

We encourage you to include language in the housing authorization requiring HUD to set energy standards for housing covered by the HUD Code which are equal to those required by HUD for site-built homes.

As an example of how far out of line the HUD standards are, I would like to cite a comparison of the energy requirements for the various types of housing in zone two, a geographical zone encompassing Bismarck, North Dakota as well as Portland, Maine.

Zone II Bismarck ND - Portland, ME

		HUD MPS			
	Model Code on Energy Conservation (MCEC)	Fossil Fuel or Heat Pump	Electric	Farmers Home Admin. (FmHA)	HUD Manufactured Housing Standard (MHS)
Ceilings	R-30	R-30	R-30	R-30	R-14
Walls	R-14	R-16	R-19	R-19	R-7
Floors	R-14	R-19	R-19	R-19	R-11
Glazing (windows)	Double Pane	Double Pane	Double Pane	Double Pane	Double Pane

Zone II represents the "snow belt" regions of the country and is one of two zones that the HUD Manufactured Housing Code employs for energy requirements.

The thermal resistance of a building material is designated by an R-value. This is an indication of the ability to retard heat flow. The use of R-values makes it possible to add the thermal value of a whole series of materials, air films, and air spaces so that the total R-value for a composite building section can be determined. Since an R-value indicates the ability to retard heat flow, the higher the R-value, the higher the insulating value. All materials having the same R-value, regardless of thickness, weight, or appearance, are equal in insulating value.

Thickness of insulation is only one factor that determines its R-value. Insulation should always be specified by R-value, not thickness. Further, R-values are the key figures used in calculating the thermal performance of building sections.

Multihousing Preservation

Mr. Chairman, in the last Congress, Representative Frank of Massachusetts introduced the Multihousing Preservation Act to provide loans from a revolving fund for making necessary capital improvements to maintain the low-income character of certain government-assisted projects in decent, safe, and sanitary condition. It is our understanding that this bill will be introduced soon in the House and the Senate.

In our discussions with HUD staff on this issue, we learned that HUD conducted an informal survey about a year and a half ago to determine capital improvement needs for the Section 236, Rent Supplement and BMIR projects. The universe of these projects is about 646,000 units involving 6,500 projects. HUD surveyed 3,000 projects and obtained information on 2,200 projects. Based on the information we understand was supplied to HUD, Mr. Chairman, these 2,000-plus projects demonstrated a need of $713 million or $2,900 per unit.

Consequently, we hope the Committee will give careful consideration to this legislation when it is introduced and recognize the cost-effectiveness of preserving the existing housing stock for lower-income people.

We look forward to working with the subcommittee to analyze the specific provisions of this important bill.

Multifamily Mortgage Limits

The Administration's bill would permit field office approval of mortgage limits up to 110 percent of the maximum limits and the Secretary could approve mortgage limits at 140 percent of the maximum on a case-by-case basis. Both of these actions would be limited to high cost areas. We support such actions as they would contribute to expedited processing.

Repeal of 7(o) Regulatory Review

The Administration's bill calls for termininating this provision in law. While we are not experts as to whether this section as written can stand a judicial test, we have always supported legislative authority to enable Congress to review proposed rules and regulations issued by federal agencies and departments. You are well aware that overregulation at the local, state and federal level has resulted in increasing construction and land development costs by about 25 percent.

Elderly and Handicapped Housing

Last year, Senator Heinz developed an alternative to the current system of providing federally assisted housing for elderly and handicapped. After reviewing this proposal, NAHB supported this concept and we hope the subcommittee will give serious consideration to revising and expanding the Section 202 program. The proposal would include limited dividend sponsors as well as provide for interest-free advances instead of loans combined with a fixed operating payment based on a percentage of the first year's operating cost. It has been estimated that adoption of such legislation could double the number of housing units assisted for the same amount of funding.

Tax Reform

Mr. Chairman, I could not let this opportunity pass without noting our serious concerns regarding the impact of major tax reform on housing. We would strongly oppose any tax reform plan which would jeopardize affordable homeownership or rental housing. A number of tax reform proposals have been introduced by Members of Congress and proposed by the Treasury Department which would abandon long-standing tax policy favoring housing. NAHB has done extensive analysis of these plans. Our summary analysis of tax reform proposals will be made available to you for your review -- its conclusions have stood up to scrutiny by the Treasury Department, economists, academics and Congressional staff.

We have found that these plans would increase the cost of homeownership, particularly for first-time buyers. And these proposals would have a devastating effect on rental housing. In addition, each of these proposals would eliminate single family mortgage revenue bond financing and industrial development bonds for multifamily rental housing, which would further drive up housing costs.

Mr. Chairman, we are looking to the knowledgeable housing advocates on this committee to assist in the effort to maintain essential tax incentives for housing. We would respectfully suggest that a hearing on the impact of tax reform on housing by this Subcommittee may prove to be very useful. Such a hearing could explore the long-standing economic and social policy to promote housing through the tax code. Removal of these incentives would negate much of the national policy favoring homeownership and rental housing.

Conclusion

Mr. Chairman, we wish you well in the effort of this Committee, Congress and the Administration to determine the appropriate federal role in promoting homeownership and affordable rental housing. Your decisions will have a major effect on future home-buyers, homeowners, and renters in the years ahead.

We stand ready to work with you on that vital effort.

I will be happy to respond to any questions you may have.

EXHIBIT A

DEFENSE DEPARTMENT AND HUD
BUDGET AUTHORITY

(Millions of dollars, by Fiscal Year)

	1980	1981	1982	1983	1984	1985	1986 (proposed)
Defense	$140,711	$175,977	$211,594	$238,681	$258,150	$284,730	$313,700
Percentage of Total Budget	20.7%	23.5%	26.0%	26.9%	27.2%	26.7%	29.6%
HUD	$ 35,688	$ 33,353	$ 20,088	$ 15,970	$ 17,924	$ 16,682*	$ 6,971
Percentage of Total Budget	5.3%	4.5%	2.5%	1.8%	1.9%	2.0%	0.7%

* Actual budget authority for HUD in 1985 was $31.0 billion. However, this number was inflated by $14.3 billion because of a change in tax law which called into question the tax status of public housing notes. The change caused tax-exempt financing to be suspended and to be replaced by direct federal loans.

Source: Historical Tables, Budget of the United States Government, Fiscal Year 1986.

EXHIBIT B

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
SUBSIDIZED HOUSING STARTS

(Number of Units Started, by Fiscal Year)

HUD PROGRAM	1980	1981	1982	1983	1984	1985 (est)	1986 (est)
Section 8*	81,540	34,009	56,208	18,741	4,741	3,500	2,000
Section 202*	19,514	15,907	15,136	13,381	10,232	13,500	12,500
Public Housing	36,365	41,660	22,906	23,812	20,313	7,134	3,000
Indian Housing	4,163	3,947	2,194	3,248	2,130	3,300	2,800
Section 235	9,577	38,313	16,497	11,587	1,573	4,900	2,000
Section 236	185	217	115	318	0	0	0
TOTAL	151,344	134,053	113,056	71,087	38,989	32,334	22,300

* New construction only, excluding substantial rehabilitation.

Source: U.S. Department of Housing and Urban Development, Office of Policy, Financial Management and Administration.

EXHIBIT C

BUDGET FREEZE

WHEREAS, massive and growing federal budget deficits remain the number one problem affecting our national economy; and

WHEREAS, if no action is taken, deficits will continue in the $200 billion range for the foreseeable future; and

WHEREAS, the economic recovery cannot be sustained over the long-term without a major deficit reduction effort beginning in FY'86; and

WHEREAS, all areas of government spending should be controlled as part of a program of shared sacrifice; and

WHEREAS, the goal of deficit reduction can only be achieved with a bipartisan effort aimed at bringing all elements of government spending under control;

WHEREAS, a freeze on defense spending, cost-of-living increases for entitlement programs and domestic programs at FY'85 levels and an additional 10 percent across-the-board reduction in domestic discretionary spending from FY'85 levels could reduce the projected deficit by about $50 billion for FY'86,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders urge Congress and the Administration to support an across-the-board spending freeze for defense programs, cost-of-living increases for entitlement programs, and domestic programs, and an additional 10 percent across-the-board reduction in spending for domestic discretionary programs to reduce the projected deficit for FY'86 by $50 billion and to achieve a goal of bringing the annual deficit at least under $100 billion by FY'88,

BE IT FURTHER RESOLVED that NAHB urge Congress and the Administration to oppose any action on a comprehensive tax code revision until a major deficit reduction plan is enacted into law.

The National Association of Home Builders Executive Committee
March 4, 1985

EXHIBIT D

COMPREHENSIVE ACROSS-THE-BOARD FREEZE

(Savings in Billions)

CATEGORY	OUTLAY SAVINGS FY'86	FY'87	FY'88
Freeze COLAs on Entitlements[1]	- 9.4	-12.9	-13.3
Medicare & Medicaid Provider Freezes	- 4.2	- 6.3	- 8.7
Discretionary Appropriations Programs Budget Authority Freeze	- 3.4	- 5.5	- 6.7
Congressionally Appropriated Entitlements[2] Budget Authority Freeze	- .2	- .2	- .2
Discretionary Loan Programs[3] Loan Level Freeze	- .3	- .4	- .6
Discretionary Trust Fund Programs[4] Obligations Freeze	- .5	- 1.1	- 1.4
Defense Budget Authority Freeze	-20.2	-35.4	-51.1
TOTAL OUTLAY SAVINGS	-38.2	-61.8	-82.0

1 "Entitlements" means Social Security, means-tested programs, veterans benefits, other COLAs including civilian pay raise.

2 "Congressionally Appropriated Entitlements" means social service block grants, handicapped and rehabilitation services, foster care and adoption assistance, women infant children (WIC) feeding program.

3 "Discretionary Loan Programs" means subsidized agriculture credit, rural housing, rural development, Export-Import Bank, Rural Electrification Administration, Small Business Administration.

4 "Discretionary Trust Fund Programs" means airport and airway, highway trust fund, administrative expenses for Social Security, SSI, medicare.

NON-DEFENSE DISCRETIONARY SPENDING

FY'86	FY'87	FY'88
$171 Billion	$181 Billion	$190 Billion

10 Percent Across-the-Board Cut FY'86 - $17.1
15 Percent Across-the-Board Cut FY'86 - $25.6

Compiled from Congressional Budget Office estimates by NAHB.

EXHIBIT E

Date: January 23, 1985
City: Houston, Texas

NAHB Resolution

Title: Rural Inventory
Original Sponsor: Special Committee on Rural Housing

WHEREAS, there is an inventory of foreclosed rural properties now being managed by the Farmers Home Administration (FmHA); and

WHEREAS, FmHA is now unable to sell many of these properties through its own efforts; and

WHERAS, the existence of this inventory impedes the development of other much needed housing financed by FmHA,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders support legislation requiring the Farmers Home Administration to delegate to the private sector the sale of FmHA inventory housing, and direct the sale by public auction of units that are unsold after 12 months.

Board of Directors Action: Approved

EXHIBIT F

Date: January 23, 1985
City: Houston, Texas

NAHB Resolution

Title: FmHA Processing
Original Sponsor: Special Committee on Rural Housing

WHEREAS, the Farmers Home Administration field staff is currently inadequate in number to meet the demand for loan processing; and

WHEREAS, FmHA has an ineffective point priority system for processing, which is cumbersome and time consuming; and

WHEREAS, FmHA's field staff spends a large amount of time conducting inspections and appraisals,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders urge the Farmers Home Administration to eliminate its current priority system and instead consider applications based on the date they are received,

BE IT FURTHER RESOLVED that NAHB urge FmHA to use fee inspectors and fee appraisers to speed processing and cut costs.

Board of Directors Action: Approved

EXHIBIT G

Date: January 23, 1985
City: Houston, Texas

NAHB Resolution

Title: Pooling of FmHA Funds
Original Sponsor: Special Committee on Rural Housing

WHEREAS, the timely allocation of Farmers Home Administration rural housing funds is critical to meet the housing needs of rural America; and

WHEREAS, currently, not all county FmHA offices utilize their proportional allocations in a timely manner; and

WHEREAS, housing funds will be better utilized if these national funds are pooled by each state FmHA office four times per year,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders urge the Farmers Home Administration to require quarterly pooling of rural housing funds within each state.

Board of Directors Action: Approved

EXHIBIT H

National Association of Home Builders

15th and M Streets, N.W., Washington, D.C. 20005

Telex 89-2600 (202) 822-0400 (800) 368-5242

John J. Koelemij
1985 President

March 6, 1985

Office of the Chief
Directives Management Branch
Farmers Home Administration
U.S. Department of Agriculture
South Agriculture Building, Room 6348
14th And Independence Ave., S.W.
Washington, D.C. 20250

RE: 7 CFR Parts 1804 and 1924
Revision and Redesignation
of Part 1804, Subpart D,
Planning and Performing
Site Development Work.

Dear Sir:

On behalf of the over 130,000 members of the National Association of Home Builders, I am commenting on the proposed rule for subdivision approval by the Farmers Home Administration as published in the Federal Register on January 7, 1985 at page 815.

The 1983 Housing Act authorized total subdivision reciprocity by the three federal housing agencies: FmHA, FHA and VA. The goal of this proposed rule is to comply with that 1983 legislation and provide clear and concise guidelines for subdivision development.

However, subsequent to the 1983 Housing Act, VA and FHA have taken one step further with regard to subdivision approvals. To speed processing and avoid governmental duplication, VA eliminated its old subdivision approval procedure. As of January, 1985, VA defers to local standards. FHA is very close to eliminating its lengthy subdivision approval process.

In view of these cost saving measures taken by FHA and VA, and to maintain the mandated requirement for reciprocity, NAHB urges FmHA to take steps to do the same - eliminate the subdivision approval procedure. Local and state standards can be maintained, leaving overworked FmHA field staff free to pursue other pressing assignments. NAHB believes that continuing regulatory reform is a significant contributing factor to an expanding economy.

As always, NAHB commends the hard work performed by FmHA staff both in Washington and throughout the country. The key to success with the FmHA housing programs is the continuing cooperation between the agency and the industry.

Thank you for your consideration of our views.

Sincerely,

John J. Koelemij

John J. Koelemij
President

Senator HECHT. Thank you very much, Mr. Fischer.
Mr. Thygerson.

STATEMENT OF KENNETH J. THYGERSON, PRESIDENT OF THE FEDERAL HOME LOAN MORTGAGE CORPORATION

Mr. THYGERSON. Thank you, Mr. Chairman. I have a more detailed statement that I would like to submit for the record.

It's indeed a pleasure for me to appear for the first time before you, Senator Hecht, as chairman of the subcommittee.

Senator HECHT. Thank you.

Mr. THYGERSON. At the outset of my statement, Mr. Chairman, I want to make sure the subcommittee is very clear on one important fact.

Freddie Mac is not proposing the imposition of user fees. Freddie Mac continues to believe that only Congress can sort out the issues involved in user fees and only after very close and careful review.

We appreciate your taking the time to hear our concerns today. If Congress should choose to impose user fees on Government-sponsored enterprises for some reason, Freddie Mac has several very important concerns which I will highlight shortly.

But first I would like the subcommittee to know how grateful Freddie Mac is for the recognition you have given to the importance of the secondary market.

We're very grateful to the staff of the subcommittee for their professionalism and just plain hard work in working with us on mortgage finance issues.

TRACK RECORD

You have a clear understanding of the essential role we play in carrying out our congressional mandate to provide affordable mortgage credit to middle-income Americans.

Nothing is more concrete proof of our emphasis on middle-income lending than the average loan amount of the loans we purchase. Last year, that average loan was $48,763. Last year, Mr. Chairman, we purchased in your State of Nevada alone, $136 million of loans for both single family and multifamily. We purchased $600 million from the State of Michigan; $350 million from Tennessee; and $771 million from my home State of Illinois.

As a matter of fact, this July 24 marks the beginning of our 15th year, which Senator Proxmire will remember because he was one of the original founding fathers of the legislation that created us in 1970. Just about the time we start our 15th year, we will be hitting the $100 billion mark in terms of securities we've issued backed by mortgages we have purchased.

Freddie Mac has experienced significant growth in those 15 years. From 1971 through 1984 we purchased over 2.7 million mortgages. We've issued over $90 billion of mortgage-backed securities, 67 percent of which were purchased in the last 3 years alone.

This growth represents a responsiveness to the needs of the home buying public and the many changes occurring in the home finance system affecting home buyers, lenders, and investors alike.

And Freddie Mac's growth has been accomplished without Federal appropriations, budget authority, or outlays. Our expenses are paid exclusively from our successful mortgage operation.

Freddie Mac is proud of the number of innovative programs we have developed since our beginning to improve the efficiency and performance of the secondary mortgage market. From passthrough securities, participation certificates, and collateralized mortgage obligations, to a variety of investment-quality mortgage loans designed to fit the diverse needs of the home buying public, we will continue to be a pathfinder in America's housing finance industry, to find even more innovative ways to tap new sources of credit.

In just the next 5 years alone, it's estimated that the mortgage needs of the country will surpass $1 trillion. This will require an active and efficient secondary market.

With this as a foundation, I'd like now to address the user fee issue.

You have before you a proposal requiring you to, in effect, reevaluate the decision Congress made 15 years ago. Congress decided then that Freddie Mac should carry out it's mission without Federal appropriations, without budget authority or outlays, but with the benefits of agency status in the capital markets. We operate like a private company where all expenses are paid from corporate revenues.

But now, because of competing public policy objectives, as you, Mr. Chairman, enunciated and Senator Proxmire enunciated in your opening statements, you're being asked to consider whether we should pay the Government a fee for what OMB calls a special relationship with the Federal Government.

Congress originally established this special relationship so that we could issue our securities at favorable interest rates. These favorable interest rates have made mortgage credit more available and affordable to millions of home buying Americans.

Only Congress can sort out the competing public policy objectives. As you try to make the difficult decisions which confront you, let me suggest some of the questions which will have to be answered.

Should the special relationship Congress established to reduce home buyer's costs now begin to be offset by the payment of a user fee? Are the functions for which we were created still useful to the economy and society? Or is it in the public interest to raise revenue by reducing the agency benefits which Congress conferred on us?

If Congress should decide to impose a user fee, our concern is that the current proposal under consideration is seriously flawed both fundamentally and technically. These flaws are as follows: First, mortgage passthrough securities expose the Government to virtually no interest rate risk since interest and principal on the mortgages underlying the securities is directly passed through to investors.

Senator HECHT. You have 1 minute to recap, OK?

Mr. THYGERSON. In addition, mortgage passthrough securities expose the Government to little default risk. We are able to handle a fiftyfold increase in default rates on our mortgage passthrough securities. And like participation certificates, collateralized mort-

gage obligations, known as CMO's, are hybrid passthroughs fully backed by pools of conventional fixed-rate mortgages, with principal and interest on the mortgages passed through to CMO investors. CMO's should be treated as passthrough securities under the user fee scenario.

All in all, we believe the 5-basis point user fee on passthrough securities is inappropriate.

In addition to the fundamental flaws, there are a number of technical flaws. We point those out in our written testimony.

I would also like to point out at this time that, effective January 1 of this year, Freddie Mac was taxed for the first time. Not only are we now taxpayers, but we're one of the few corporations that will be paying at the full corporate rate. It is unlikely that the full cost of a user fee can be entirely passed through, and unfortunately, will be partially borne by stockholders.

I hope this testimony clarifies our position and provides some useful comments. The viability of the secondary mortgage market and it's ability to continue providing more affordable housing credit to America's growing home buying population is, as always, our singular concern.

I'll be happy to answer any questions.

Senator HECHT. Thank you very much.

[The complete prepared statement follows:]

STATEMENT OF
KENNETH J. THYGERSON
PRESIDENT
FEDERAL HOME LOAN MORTGAGE CORPORATION

I. Introduction

It is my pleasure to appear before this subcommittee today. It is especially a pleasure to appear for the first time before you, Senator Hecht, as chairman of this subcommittee.

Before proceeding, I want to make sure the subcommittee is very clear on one important fact: Freddie Mac is not proposing the imposition of user fees. Freddie Mac continues to believe that only Congress can sort out the issues involved in user fees after a very close and very careful review of all the concerns that have been raised. We appreciate your taking the time to hear these concerns today. If Congress should choose to impose user fees on the government-sponsored enterprises for some reason, Freddie Mac has several important concerns with the proposal currently on the table which I will highlight later.

But, first, I would like this subcommittee to know how grateful Freddie Mac is for the recognition you have given, and continue to give, to the importance of the secondary mortgage market. We are also grateful to the staff of this subcommittee for their professionalism and plain hard work, both past and present, in working with us on mortgage finance issues. You have a clear understanding, as witnessed by last year's passage of the Secondary Mortgage Market Enhancement Act, of the essential role we play in providing affordable mortgage credit. This is a role we certainly have not taken lightly over the past 14 years. As a matter of fact, this July 24 marks the beginning of our 15th year, as Senator Proxmire will remember. He was one of the founding fathers who molded the legislation that created

us in 1970. From virtually a handful of employees to over 750 today, we have come a long way and we are proud of our accomplishments.

Just about the time we begin our 15th year this summer, we will be hitting the $100 billion mark in the securities we have sold backed by the mortgages we have purchased. This represents more than just our success in earning a profit. It represents the development and fine tuning of a secondary mortgage market entity into a necessary link between affordable mortgage credit and the American homebuying public. It represents an on-going faithfulness to our charter responsibilities. And Freddie Mac's growth has been accomplished without federal appropriations or budget authority. Our expenses are paid exclusively from our mortgage operations.

From our beginning in 1971 through last year, Freddie Mac purchased over 2.7 million mortgages and issued over $90.6 billion in securities backed by these mortgages. Of those mortgages, 67 percent were purchased in the past 3 years. I think these figures are a telling reflection of Freddie Mac's effective role as a pathfinder in America's housing finance industry. And it's a role we will continue to play as we find even more innovative ways to tap sources of additional mortgage credit for America's homebuyers in the future.

These are certainly significant growth figures. A growth that represents a responsiveness to the needs of the homebuying public and the many changes occurring in the housing finance system affecting homebuyers, lenders and investors alike. This responsiveness shows not just in Freddie Mac's innovative products and services - some of which I would like to highlight

for you today - but in the way we are able to meet the demands of mortgage availability and still maintain our congressional mandate to provide affordable mortgage credit to middle-income Americans. Nothing is more concrete proof of our importance in providing a valuable source of affordable mortgage credit for middle-income homebuyers than the average loan amount on the newly originated mortgages Freddie Mac purchases. Last year that figure was $48,763.

Going back to 1971 again, we saw a very big challenge ahead of us - of literally creating something from nothing. We were given the job of forming a national secondary market for conventional residential mortgages - replacing what was then a disjointed array of informal buying and selling networks between lenders. During our first year of operation, we purchased about 21,000 mortgages at sales of $778 million. That wasn't a bad start and a start that probably could have maintained its own momentum for years to come. But it didn't prevent us from brainstorming right from the beginning on new ways to tap the capital markets for mortgage credit and assuring homebuyers the best products for delivering that mortgage credit.

II. Forging Ahead

Freddie Mac is proud of the number of innovative high investment quality programs we have developed since 1971 to improve the efficiency and performance of the secondary mortgage market in meeting the nation's housing finance needs. I would like to briefly describe some of these for you now.

The Swap, or Guarantor program, was originally developed three years ago to help savings institutions cope in a difficult financial environment. Thrifts were very vulnerable to interest rate changes and needed to restructure their balance sheets to reduce their exposure to a variety of risks. The Swap program allows lenders to swap their unprofitable below-market rate mortgages for Freddie Mac mortgage pass-through securities, called Participation Certificates or PCs. These PCs are guaranteed Freddie Mac securities that lenders can borrow against to increase their liquidity.

Of the $21.9 billion in residential mortgages purchased by Freddie Mac last year, $14.8 billion represented mortgages that were swapped for Freddie Mac PCs. PCs outstanding at the end of last year totalled $69.5 billion, an impressive 23.2 percent increase over 1983, and a telling statement that lenders know the value of PCs as vital tools in portfolio restructuring. Lenders have also found the Swap program useful for new production. In 1984, close to 25 percent of the swaps were for new originations.

Another Freddie Mac innovation, the Collateralized Mortgage Obligation or CMO, continues to be as successful now as when we first introduced it to the market almost two years ago. It was hailed as a major innovation in the financial press who called it "mortgages by the slice." What the CMO does is further penetrate capital markets, as was initially done by the PC, by providing a security that is fully backed by residential mortgages, but offers non-traditional investors maturities to meet their needs, with greater payment certainty for their portfolios. It has also served as

another valuable tool in restructuring the portfolios of thrift institutions.

Since June 1983, we have issued 6 CMOs totalling $3.8 billion. CMOs are so successful that many other institutions have now issued their own CMOs, bringing the total to 50 CMOs worth $16 billion. So, in fact, Freddie Mac's CMOs account for 24 percent of this total.

But we didn't stop there. Last year we continued to forge the path for more available mortgage money with the birth of a new PC backed by 15-year mortgages. The 15-year mortgage is fast becoming another popular mortgage financing vehicle, particularly for the middle age homebuying public who don't want to be strapped with a long-term mortgage obligation as they move into retirement years and fixed or reduced income situations. This is a growing homebuying population, and one that will require expanded mortgage credit opportunities in the future. We sold our first 15-year PC in June 1984, and we just passed the $1 billion mark in PCs backed by 15-year mortgages this past January. Like the original PC or the CMO, the 15-year PC is another example of how Freddie Mac's innovations help facilitate more credit choices for homebuyers as well as more options for investors.

The 15-year PC is just one Freddie Mac response to the demand from both lenders and homebuyers for more flexibility in mortgage products. Earlier this month, we introduced four new ARMs and four conventional fixed-rate graduated payment mortgage purchase programs. The new ARMs will go a long way in making these mortgages more liquid and useful to thrift institutions in achieving their goals of portfolio restructuring. But, more

importantly, they will help lenders offer better mortgage rates and payment plans that can be tailored to the needs of individual homebuyers. In addition, the four conventional graduated payment mortgages are fixed-rate mortgages which allow a borrower with a lower income to qualify for a mortgage by providing lower monthly payments in the early years of the loan. We are pleased that we have a menu of mortgage products to fit the needs of a diverse homebuying public.

We're continuing to expand in our multifamily purchase program as well, which in turn, generates more mortgage credit for rental housing production. In 1984 we issued commitments on over $1.5 billion in multifamily mortgages. In just the first two months of this year, the multifamily commitments represent $593 million, or almost one-half of our 1984 multifamily purchase commitments. As you know, the Secondary Mortgage Market Enhancement Act expanded our multifamily activities with new purchasing authorities. These will greatly enhance our ability to purchase multifamily mortgages and help stimulate more mortgage credit opportunities for multifamily development.

III. Keeping Up the Pace

It's an impressive record: from 21,000 mortgages purchased in 1971 to 560,000 purchased in 1984, or more than two thousand every business day. From sales of $778 million in 1971 to $21.9 billion in 1984.

These figures are even more impressive on a smaller scale. Take, for example Nevada or Michigan. In Nevada, in just 1984 alone, we purchased

2,974 of both multifamily and single family mortgages totalling over $136 million. And last year we purchased 17,418 of Michigan's mortgages, replenishing the state's supply of mortgage credit by almost $600 million.

There is no doubt that Freddie Mac has been successful: so successful that this past year we were able to transfer $600 million of the corporation's appreciated value to savings institutions across the nation. You may recall that back in 1970, the 12 Federal Home Loan Banks, and their members, supplied $100 million to capitalize Freddie Mac. In return, the Federal Home Loan Banks received 100,000 shares of Freddie Mac stock. In 1984, we paid our common stockholders, the Federal Home Loan Banks, $82 million in dividends. The Federal Home Loan Banks, in turn, paid dividends to their member savings institutions. Late last year, we worked with the 12 Federal Home Loan Banks to transfer $600 million of the corporation's appreciated value to the member savings institutions by issuing preferred stock. This has in no way affected Freddie Mac's operations or statutory purpose. But it has allowed these institutions to recognize a substantial portion of the appreciated value of Freddie Mac's stock they beneficially owned since 1970.

Surprisingly enough, even with all that's been done in the secondary market and the growth that it has seen, we have only scratched the surface. The secondary mortgage market can do much more to bring affordable mortgage credit to America's homebuyers.

For example, just recently, during hearings on rural housing needs before your counterpart subcommittee on the House side, there was much discussion

on how the secondary mortgage market could help bring much needed mortgage credit to rural areas. Freddie Mac had already recognized the problems of small lenders who may not have the volume or the expertise to tap outside capital through the secondary market. As a consequence, in June of last year, we eliminated our minimum delivery requirements to allow lenders to sell one mortgage at a time.

We bought mortgages from 659 lenders in 1984 who had never sold to Freddie Mac before, some who may never have had the opportunity to sell their mortgages into the secondary mortgage market without the benefit of this new delivery policy. Our phones rang like never before from lenders who wanted to sell into the secondary market.

Yet, there is still a very significant need to move mortgage money from a capital surplus area like Miami to a capital deficit area like Cattaraugus in rural upstate New York. In just the next five years, it is anticipated we will witness over 1 trillion dollars in new mortgage originations. It is with the help the secondary market that mortgage money will be available by the most economical means.

Freddie Mac continues to be responsive to the many changes occurring in housing finance for homebuyers, lenders and investors alike. And we will continue to operate, as we have done in the past, at no cost to the federal government.

IV. User Fee Proposal

I hope that I have given you a better understanding of how Freddie Mac operates and the progress we have made over the past 14 years. With this as a foundation, I would now like to address the user fee issue.

Laid at your doorstep now is a proposal requiring you to re-evaluate the decision Congress made nearly 15 years ago. Congress decided then that Freddie Mac should carry out its mission without Federal appropriations, budget authority or outlays, but with the benefits of agency status in the capital markets. You know how successful we have been in extending the benefits of our special relationship to the primary mortgage market and homebuyers across the nation.

But now because of competing public policy objectives we are being asked to pay the government a fee for what OMB calls our "special relationship" with the Federal government which Congress originally established so that we could issue our securities at favorable interest rates. These favorable interest rates have made mortgage credit more available and affordable to millions of homebuying Americans.

Only Congress can sort out these competing public policy objectives. As you try to make these difficult decisions which confront you, let me suggest some of the questions which will have to be answered.

Should the "special relationship" Congress created to reduce homebuyers' costs now begin to be offset by payment of a user fee? Are the functions

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for which we were created still useful to the economy and society? Or is it in the public interest to raise revenue by reducing the agency benefits which Congress conferred on us?

If Congress should decide to impose a user fee, our concern is that the current proposal under consideration by Congress is seriously flawed, both fundamentally and technically. These flaws are as follows:

First, mortgage pass-through securities expose the government to virtually no interest rate risk since interest and principal on the mortgages underlying the securities is directly "passed-through" to investors. Ninety percent of all mortgages that we purchase are sold to investors using this technique. Both investors and rating firms alike recognize that there is very little risk associated with issuing pass-through mortgage instruments.

Second, mortgage pass-through securities expose the government to little default risk if structured around careful business practices and sound underwriting guidelines. Because of its business practices, Freddie Mac can support a 50-fold increase in foreclosure rates, comparable to the Great Depression, without reliance on its federal backing. We have imposed underwriting guidelines that result in only 1 in 500 loans purchased ending in foreclosure. Some have wondered if our foreclosure rates are so low because lenders voluntarily repurchase loans sold to Freddie Mac that have become delinquent. Others have even suggested that we compel lenders to repurchase delinquent loans. In fact, neither suggestion is true. During 1984, Freddie Mac's portfolio averaged 1,967,621 total loans serviced. Of

those loans, 2.6 percent, or an average 51,334, were 30 days or more delinquent or in the process of foreclosure at the end of each month. And repurchases of our delinquent loans or foreclosures in process averaged just three-hundredths of one percent.

Finally, Collateralized Mortgage Obligations, or CMOs, are fully backed by pools of conventional fixed-rate mortgages, similar to pass-through securities. Like pass-through securities, the principal and interest on the mortgages is passed through to CMO investors. This incurs little interest rate risk or default risk to the government, and should be treated as pass-through securities under a user fee scenario.

As a result, a 5 basis point user fee on mortgage pass-through instruments and CMOs is inappropriate.

I view these first three concerns as fundamental flaws. However, there are some more technical flaws that also warrant your attention.

User fees should only apply to commitments to purchase mortgages made after the fee's effective date. Currently, it is industry practice to establish prices for mortgage purchases and swap transactions for up to 12 months before the mortgages are delivered and issued in the form of securities. Any retroactivity of the user fee to outstanding commitments as of the effective date will impair the smooth functioning of the secondary market.

The user fee should be applied on a calendar year basis instead of a fiscal year basis to be consistent with common tax and accounting systems.

I also would like to point out that, effective January 1 of this year, Freddie Mac was taxed for the first time. Not only are we now taxpayers, but we are one of the few corporations that will pay taxes close to the 46 percent corporate rate. It is unlikely that the full cost of a user fee can be entirely passed through, and, unfortunately, will be partially borne by our stockholders.

Finally, if enacted, a user fee should be viewed as an insurance premium to the government against loss. The fees collected should be put into a special reserve account to be used in the event of loss. This is currently the practice for FSLIC and FDIC premiums collected as well as GNMA guarantee fees.

I hope the testimony I have presented today will help clarify Freddie Mac's position and provide useful comments for your analysis of the user fee issue. The viability of the secondary mortgage market and its ability to continue providing more affordable mortgage credit to America's growing homebuying population is, as always, our single concern at Freddie Mac.

Senator HECHT. Mr. Maxwell, you lost your introducer so I'll have to introduce you myself.

STATEMENT OF DAVID O. MAXWELL, CHAIRMAN OF THE BOARD, FEDERAL NATIONAL MORTGAGE ASSOCIATION [FNMA], WASHINGTON, DC

Mr. MAXWELL. Thank you, Mr. Chairman. I am Chairman and chief executive officer of FNMA.

I appreciate your invitation to testify, and it is indeed a privilege, Mr. Chairman, to appear at your first set of hearings as chairman of the subcommittee, and I hope to have that opportunity many times in the future.

TAX ON HOUSING

Other witnesses have said, and I would like to reiterate, that this proposal is misnamed. It is not really a user fee at all. It is a tax on housing. And it is important to remember that this tax is not a one-time levy. On the contrary, it would have to be paid annually on all debt and mortgage-backed securities issued, so that ultimately all of the hundreds of billions of dollars of outstanding securities of FNMA, the Federal Home Loan Banks and the other entities would be subject to the tax. That would mean significantly higher costs to the Nation's savings and loans, as well as to FNMA, at precisely the time when they could least afford to bear those costs.

According to OMB's figures, the added costs to the savings and loans would be about one-quarter of $1 billion over the next 5 years and $400 million for FNMA alone. And I need hardly add that once this tax is in place, we can anticipate OMB proposals to increase it. The reason I say that is because OMB's real motivation is encompassed in its statement of support for this tax, that the actions of FNMA and the other Government-sponsored enterprises have caused, "an oversupply of credit to the sectors they serve."

And I wonder, can anyone, including OMB, honestly believe that home buyers, farmers, and students are awash with credit? Now I think this is very dangerous for the financial system, Mr. Chairman. We read about the Chairman of the Federal Home Loan Bank Board seeking additional funding for the FSLIC, the almost daily stories in the Wall Street Journal about the difficulties of the thrift institutions, the situation in Ohio that we've seen, the FDIC seeking buyers for large and venerable savings banks in New York City. All of these factors and more show that the financial services business is under some pressure, and this tax would certainly not add anything to their stability.

And I know, Mr. Chairman, that you are particularly concerned about the ability of American home buyers to be able to afford a house. Right now in the housing field, we are witnessing a wave of foreclosures and repossessions of property by home mortgage lenders. The private mortgage insurance industry is rapidly retrenching, and I can tell you, with regret, but with confidence, that underwriting appraisal standards for home mortgages are going to be materially tightened. Larger down payments will be required.

Mr. Chairman, affording a home is going to become more difficult for the average American for the rest of this decade. Under

these circumstances, should Congress accept OMB's proposal to add yet another burden on American's home buyers?

Now the thing about this tax is either it will be passed on by those who pay it, or it won't be. Mr. Thygerson's testimony, one part which he did not read, said that he feels that Freddie Mac would have to absorb some of this tax, and I believe that's the case for FNMA today. In either case, whether it is passed on or not, it can only do harm. If FNMA is forced to swallow it, I must tell you, as Chairman and chief executive officer of the company, we will find ourselves in grave jeopardy. Over the last 4 years, we have lost a cumulative total of $278 million, for basically the same reasons that the S&L's lost money over the last 4 years, and that is because the inflation and high-interest rates which developed over the 1970's and early 1980's left these institutions with a large number of low-yielding loans and high cost of debt.

We can see daylight coming at FNMA by the restructuring efforts that we have been able to undertake in these 4 years, but absorbing this tax could kill those efforts. It's a little bit as if somebody were proposing to put the heel of their shoe down on a man who has fallen overboard and is climbing up a ladder out of the water, just as he's beginning to get up near the deck.

If the market permits the tax to be passed on, then the cost of a home will rise. This is true, not only because of the tax on FNMA, Freddie Mac, and the Federal Home Loan banks, but, because if Congress enacts this tax and an increase in VA fees, OMB has announced its intention to more than double the GNMA guarantee fee and to raise FHA fees as well.

Mr. Chairman, this subcommittee must realize that that will knock millions of Americans right out of any chance of being able to afford a home.

Senator HECHT. Can you wrap it up in 1 minute, please?

Mr. MAXWELL. Yes, I can. As a matter of fact, Mr. Chairman, I have a couple of charts that I thought might illustrate what I'm saying, if I could—would you permit me to——

Senator HECHT. Yes. If you can do it in 1 minute.

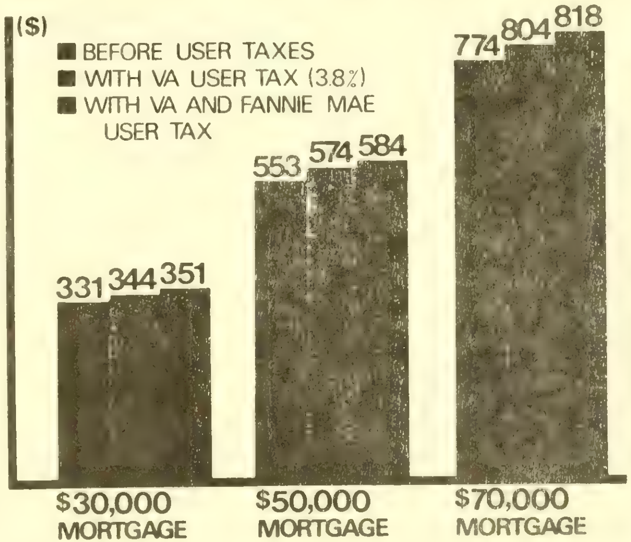
Mr. MAXWELL. Oh, yes.

Chart A shows user tax raising monthly mortgage payments. On a $30,000 mortgage, it would be $7,200 over the life of the mortgage: a $50,000 mortgage, $11,160: and a $70,000 mortgage, $15,840. That's with just those fees which have been included up to now in the Senate Budget Committee's bill; the 3.8 percent VA user fee and FNMA user tax.

We estimate that would put about 1.5 to 1.8 million people out of the market for homes in this country.

CHART A

USER TAXES RAISE MONTHLY MORTGAGE PAYMENTS



RESULTS: USER TAXES COST HOMEBUYER:

1. $30,000 MORTGAGE— $7,200 OVER LIFE
2. $50,000 MORTGAGE— $11,160 OVER LIFE
3. $70,000 MORTGAGE— $15,840 OVER LIFE

Chart B illustrates the effect on FNMA, if we have to absorb this tax. It's very easy to read. This is the cumulative effect that this tax, $378 million over the next years, 1986–90, and this is our retained earnings, our total retained earnings at the present time, $486 million.

And Mr. Chairman, I submit that in either case, this tax is an unwise and unwarranted step and should be rejected by this committee.

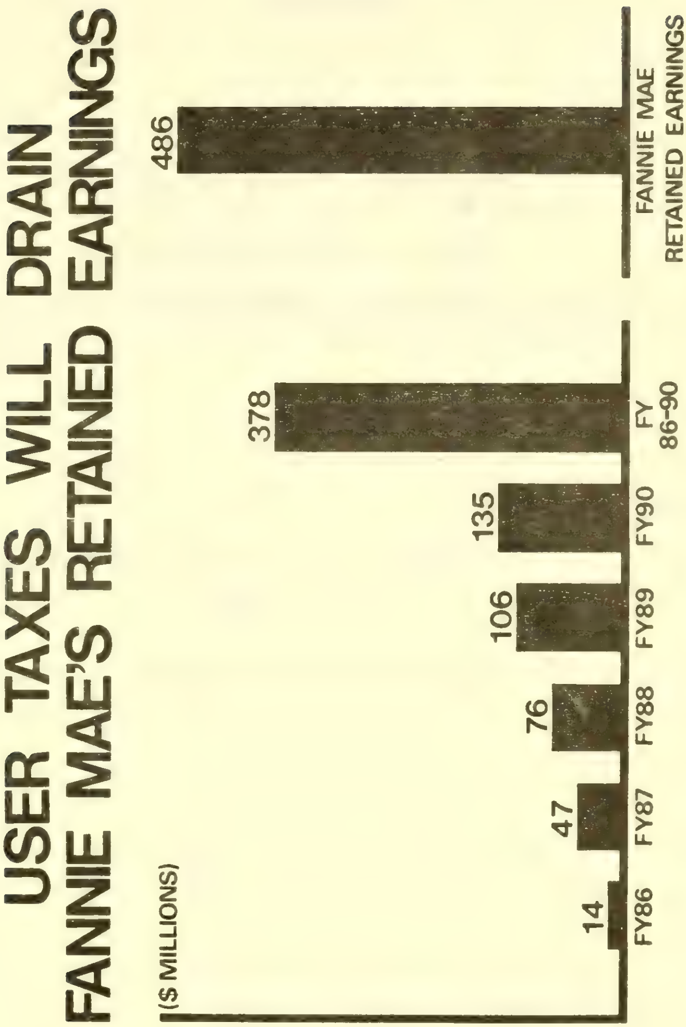
Senator HECHT. Thank you. Do you have a page of that chart B down to perspective? I'd like to have it for the record.

Mr. MAXWELL. Yes, sir.

Senator HECHT. Thank you very much.

[Chart B and the complete prepared statement follow:]

CHART B


USER TAXES WILL DRAIN
FANNIE MAE'S RETAINED EARNINGS
($ MILLIONS)
14
47
76
106
135
378
486
FY86
FY87
FY88
FY89
FY90
FY 86-90
FANNIE MAE RETAINED EARNINGS

Statement of

DAVID O. MAXWELL

CHAIRMAN OF THE BOARD AND

CHIEF EXECUTIVE OFFICER

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Before the

SUBCOMMITTEE ON HOUSING AND

URBAN AFFAIRS

UNITED STATES SENATE

March 25, 1985

Mr. Chairman and Members of the Subcommittee, my name is David O. Maxwell. I am Chairman and Chief Executive Officer of Fannie Mae. I appreciate your invitation to testify at this hearing.

I have accepted that invitation with one purpose in mind: to oppose with all the vigor at my command the misnamed and misguided OMB proposal to burden Fannie Mae, Freddie Mac, the Federal Home Loan Banks, and the homebuyers of this country with a "user fee" on the securities issued by these federally sponsored enterprises.

I label this proposal "misnamed" because it is not a "user fee" at all. It is a tax on housing. As such, it violates the express policy of the Administration not to reduce the deficits by imposing additional taxes on the American people.

The tax would be initially imposed in fiscal 1986 at a rate of .05 percent, or five basis points, on all debt and mortgage-backed securities issued by our company. In fiscal 1987 and later years, the levy on debt would rise to .083 percent, or eight and one-third basis points. OMB estimates this tax would cost Fannie Mae almost $400 million over the next five years.

It is important to remember that this tax is not a one-time levy. On the contrary, it would have to be paid annually on all debt and mortgage-backed securities issued so that ultimately

all of the hundreds of billions of dollars of outstanding securities of Fannie Mae, the Federal Home Loan Banks, and the other entities would be subject to the tax. That would mean significantly higher costs to the nation's savings and loans, as well as to Fannie Mae, at precisely the times when they could least afford to bear those costs.

I need hardly add that, once this tax is in place, we can anticipate OMB proposals to increase the rate until the time when they will have accomplished their true objective: to destroy the usefulness of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks as consistent providers of funds for affordable housing in this country.

This Housing Tax Proposal is Reckless and Dangerous

I want to make it as clear as I can, Mr. Chairman, that OMB is pursuing here a reckless and dangerous course. Enactment of this tax could deal a crippling blow to a U. S. financial system already under exceptionally heavy pressure.

Just look at the published facts. The chairman of the Federal Home Loan Bank Board seeks added funding for the FSLIC. *The Wall Street Journal*, just last week, ran a front-page story suggesting that the accounting practices of some thrift institutions mask serious financial problems. State-insured savings and

loans in Ohio have had to close their doors to their depositors. Financial Corporation of America reports a loss of $500-700 million. The FDIC is seeking buyers for large and venerable savings banks in New York City.

I could go on with this sad litany, but I think it is more important to share my view that these known problems may well constitute the tip of the iceberg. Anyone in the financial services business who speaks honestly with you will tell you there may, indeed probably will, be further turmoil -- especially if interest rates should rise.

In the housing field, we are witnessing a wave of foreclosures and repossessions of property by home mortgage lenders. The private mortgage insurance industry is rapidly retrenching. I can tell you with confidence that underwriting and appraisal standards for home mortgages are going to be materially tightened. Larger downpayments will be required. Mr. Chairman, affording a home is going to become more difficult for the average American for the rest of this decade.

Under this set of circumstances, should the Congress accept OMB's proposal to add yet another burden on America's beleaguered financial institutions and home buyers? That is like throwing gasoline on a fire.

Either this proposed tax will be passed on by Fannie Mae and others subject to it, or it won't. In either case, it can only do harm. If Fannie Mae is forced to swallow it, I must tell you, as chairman and chief executive officer of this company, we will find ourselves in grave jeopardy. Over the last four years, we have lost a cumulative total of $278 million. Our retained earnings have declined from $818 million to $486 million. In 1984, we lost $57.4 million. Despite these losses, we have made substantial progress over the last four years in working out of the financial pit we have been put in by our inherited portfolio of $57 billion of loans, averaging a yield of 9.24 percent. We can see daylight through several more years of sustained and determined efforts. Absorbing this tax could kill those efforts.

Now, suppose the market permits the tax to be passed on. That means that the cost of a home will rise. This is true not only because of the tax on Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, but because, if Congress enacts this tax and an increase in VA fees, OMB has announced its intention to more than double the GNMA guarantee fee and to raise FHA fees as well. Mr. Chairman, this subcommittee must realize that will knock millions of Americans right out of any chance of being able to afford a home.

It has been said that reducing the budget deficit will lower

interest rates so much that eight-and-a-third basis points' tax on the debt of Fannie Mae and the Federal Home Loan Banks won't mean much. I can't agree with that. This tax will mean a great deal to Fannie Mae and other financial institutions struggling to survive. Certainly, we support deficit reduction, and we hope it will lead to lower interest rates. The fact is we need every bit of any reduction in interest rates to repair our balance sheets and to redress the incalculable damage done to us by the rampant inflation of the 1970's. For example, Fannie Mae started 1985 with a built-in pre-tax loss of $800 to $900 million dollars on our remaining portfolio of $46 billion of pre-1981 loans.

This proposed tax implicitly suggests that somehow Fannie Mae and the other entities created by the Congress to support homeownership in our country should share the blame for the federal budget deficit and thus should pay their "fair" share to reduce it. This is nonsense. No one has made such a case explicitly because no one can. These entities are self-supporting.

Look at Fannie Mae. Congress made us a private company with a public purpose. We paid $216 million cash to the federal government for its Fannie Mae stock when we went private in 1970. We aren't on the federal budget. We don't receive appropriations. We don't spend taxpayers' money. When we make money, we pay taxes at the full corporate rate. We had nothing whatever

to do with creating this deficit. On the contrary, Fannie Mae and many other financial institutions are victims of fiscal stimulus checked only by monetary restraint and high rates. Why should the victims now be punished?

The fact is the only way Fannie Mae could end up adding to the federal budget deficit would be if we are prevented from carrying out our plan to solve the company's financial problems. So it is indeed ironic that OMB would propose a tax that would countermand our progress by raising our interest costs.

When the Senate Budget Committee considered this "user fee" proposal as a separate item, on motion by Senators Gorton and Sasser, it was resoundingly rejected by a bipartisan vote of 15-6. Subsequently, it was included in the composite budget reported out by the committee. This action gives rise to my greatest concern about this matter. Considered on its own merits, this tax on Fannie Mae's borrowings would be rejected by a large bipartisan majority of the Senate. But, as a wolf in the sheep's clothing of deficit reduction, it might slip through. It is, therefore, imperative that this subcommittee, with oversight responsibility for Fannie Mae, take action to nsure that this tax does not survive as part of the final 1986 federal budget.

Five Additional Reasons for Rejecting This Housing Tax

There are several other specific reasons this housing tax should be rejected.

First, it amounts to a subversion of Fannie Mae's very reason for existence. It would destroy the trade-off between business restrictions and borrowing advantages established by the Charter Act.

OMB asserts the tax will narrow the gap between the cost of Fannie Mae's debt and securities and the costs paid by other borrowers. Precisely. This levy on our borrowing would run directly counter to the logic of Fannie Mae's Congressional charter: Congress created a compact, wherein the company receives lower cost funding in return for the shareholders' pledge of capital to Fannie Mae's one line of business, which is further limited by detailed statutory and regulatory provisions. The purpose of Fannie Mae's narrow business is to channel our funding to home buyers through America's mortgage lenders. This tax would renege on the bargain with Fannie Mae's shareholders, to the detriment of the nation's lenders and home buyers.

Second, the proposed tax would increase our cost of liabilities with no corresponding opportunity to increase the yield on our

assets. We have seen the regrettable effects of such a dangerous policy on the nation's thrifts. Regulators raised the rates that institutions could pay depositors before giving thrifts the authorities to earn money to pay these higher rates. Fannie Mae would be put in the same situation by this tax.

Third, this user tax is regressive. It will apply only to institutions that serve low-, moderate-, and middle-income Americans. Buyers of $200,000 homes will not be touched.

Further, Fannie Mae must remain in the market at all times. Other participants have no legal responsibility to do so. Yet this fee would hurt Fannie Mae most when its longstanding support for housing is needed most. If this tax becomes law, we may not be able to finance that support in difficult times like 1982.

Fourth, we need lower interest rates to help repair our balance sheet. This fee would negate the benefit of lower rates. Over five years, the pre-tax cost could approach the total of the company's retained earnings. The OMB estimates that this user fee would cost Fannie Mae the following amounts during each of the next five years:

Year	Tax
1986	$ 14 million
1987	$ 47 million
1988	$ 76 million
1989	$106 million
1990	$135 million
Total 1986-1990	$378 million

Mr. Chairman, our $278 million in losses over the last four years clearly show how devastating this fee could be to the corporation's financial condition. It would set us back grievously.

Fifth, this fee would hit Fannie Mae harder and faster than other government-sponsored enterprises because it would apply not just to new debt issued, but to every dollar of the company's $85 billion of debt outstanding -- debt used to finance assets that have already been priced and put on the books. This retroactivity, as well as the differential between debt and MBS, would materially favor Freddie Mac. After five years, 89 percent of Fannie Mae's obligations would be covered by the fee, as opposed to 65 percent of Freddie Mac's smaller total of obligations.

Moreover, there is no reason whatever to impose a higher fee

on debt backed by mortgages and equity than on securities backed by mortgages. OMB's proposal is clearly discriminatory in this regard.

OMB's Stated Rationale for This Housing Tax is Fallacious

When OMB proposed this tax in the budget, it stated a justifying rationale. But OMB's contentions simply do not hold water.

First, OMB said Fannie Mae and the other government-sponsored enterprises enjoy standby lines of credit at the Treasury. This statement is flat wrong for Fannie Mae. To the contrary, like other private companies, Fannie Mae has a line of credit with a consortium of banks, for which we pay a fee. I imagine OMB's facile reference is to the Secretary of the Treasury's authority, exercisable only at his discretion and under terms and conditions he prescribes, to buy $2.25 billion of Fannie Mae's obligations. That Treasury authority is not a line of credit, does not provide us ready access to funds, and has not been exercised once since Fannie Mae repurchased Treasury's interest in Fannie Mae in 1970. Moreover, the type of support authorized is not altogether different from that the government would employ to shore up any $90 billion financial company, as has been amply demonstrated.

Second, OMB says Fannie Mae is exempt from myriad Federal securities

regulations. True enough, but Fannie Mae voluntarily complies with those regulations. And if the purpose of those SEC regulations is disclosure, it seems disingenuous to exempt Fannie Mae and then tax it for the dispensation -- especially when we comply anyway.

Third, OMB asserts Fannie Mae's securities are treated similarly to Treasury debt by banks and thrifts. Indeed, that treatment is necessary if Fannie Mae is going to carry out its Congressional mission to channel money efficiently to home buyers across America. To tax that benefit conflicts with Fannie Mae's very reason for existence. Moreover, this benefit is not exclusive: Title I of the Secondary Mortgage Market Enhancement Act, which Congress enacted only last year, accords similar treatment to the obligations of other corporations -- without any tax.

Fourth, OMB charges that this tax is necessary to stop Fannie Mae's "expansive growth" and to counter our supposed "crowding out" effect. Facts let the air out of this hyperbole. Between 1975 and 1984, the compound annual growth rate of Fannie Mae's debt was 12.1 percent. The growth rates for total credit market debt and total nonfinancial debt were only slightly less, at 11.8 percent and 11.3 percent, respectively. The Treasury's growth rate, by the way, was larger than all the rest: 13.3 percent. From 1979 to 1984, the growth rates for Fannie Mae's

debt, total credit market debt, and total nonfinancial debt all declined slightly, but remain close to one another. Treasury's growth rate for debt, as I am certain you know all too well, surged upward -- near 16 percent.

OMB's "crowding out" accusation is also misleading. Fannie Mae, unlike the Treasury, is a financial intermediary. If Fannie Mae and its borrowings vanished tomorrow, the capital markets would not suddenly find itself with $85 billion in funds to reinvest -- not unless the one in fourteen American homes these funds finance vanished, too. Certainly, more money is invested in housing because Fannie Mae exists. That's why Congress chartered Fannie Mae. But OMB plays number games when it pretends Fannie Mae borrows and stores away all this money to keep it away from important uses. OMB's real motivation is encompassed in its statement that the actions of Fannie Mae and the other government-sponsored enterprises have caused an "oversupply of credit to the sectors they serve." Can OMB honestly believe that home buyers, farmers, and students are awash with credit? This is fantasy, not policy.

OMB claims this tax will facilitate more direct private competition with Fannie Mae. The Congress, just last year, took positive action to encourage additional competition in the secondary market through the provisions of Title I of the Secondary Mortgage Market Enhancement Act of 1984. Fannie Mae supported that act.

But we submit that it will not help the secondary market at all to take the negative and disruptive approach of trying to encourage other participants by tearing down Fannie Mae.

Finally, OMB asserts that this tax will roughly equal the deposit insurance premiums paid by other financial institutions. Examined closely, this contention collapses. The depositories pay for a full faith and credit government guarantee, while Fannie Mae's obligations must state explicitly they carry no such guarantee. And while the depositories pay an insurance premium for about two-thirds of their liabilities, in effect all are covered; so the effective premium rate is much less. Because the depositories have this guarantee, they borrow at rates substantially below Fannie Mae. They also have significant tax advantages. If this tax is to equalize Fannie Mae and depositories, OMB needs to be told it is moving Fannie Mae's debt costs in the wrong direction. Moreover, the depository institutions enjoy much broader powers than Fannie Mae. So they can acquire a diversity of high-yielding assets to offset their debt costs.

OMB's analogy of this proposed tax to deposit insurance is a red herring calculated to divert attention from its real objective: to tear down the institutional arrangements established by the Congress to support home ownership in our country.

In summary, Mr. Chairman, I strongly urge the Subcommittee to reject this housing tax. The tax could cripple an already fragile financial system and make housing more expensive for American home buyers.

This is why the major housing groups -- the Mortgage Bankers Association, National Association of Home Builders, National Association of Realtors and National Council of Savings Institutions -- oppose this fee. The U. S. League of Savings Institutions has cautioned against the effects on Fannie Mae and the Federal Home Loan Banks.

I would be happy to answer your questions.

Senator HECHT. Senator Dixon. I am going to hold a 5-minute timeframe on us; is that all right, and we'll go on?

Senator DIXON. Very good.

I wonder if I could start then, if I may, Mr. Chairman, with Mr. Maxwell, if he will put his charts back up there.

Mr. MAXWELL. Both of them?

Senator DIXON. Well, one at a time would do. [Laughter.]

What I'd like for you to do, if you would be so kind, is to walk us through this for the benefit of the committee and the record, so that the public at large can understand that what is euphemistically called a user's fee, is, in fact, a tax, which will be either absorbed by you or passed along to the consumer. Let's do it that way. Let's talk about passing it along to the consumer. How would you do it? Would you start with some points in front, or how would you build it into the cost of the acquisition of a piece of property by an average consumer out there?

Mr. MAXWELL. Well, the VA fee would be applied directly at mortgage origination and would add to the costs of that mortgage right then and there with cash paid across the counter by the consumer.

Senator DIXON. And that would be in the first instance for the coming year, if we pass this year, 5 points, or 0.05 percent of the cost of the loan; is that right?

Mr. MAXWELL. That's it.

POINTS UP FRONT

Senator DIXON. What would you think would be the way they'd probably do it? Would they just charge points in front or something of that sort?

Mr. MAXWELL. I think that's exactly the way they would do it.

Senator DIXON. So when a person came in to get a loan, so that the average person can understand this, it would be the kind of thing that when I was a kid you didn't see at all, but it's become more and more common in recent years, and that's front loading that loan with some points.

Mr. MAXWELL. Right.

Senator DIXON. And that's what they are going to do probably here. So when you talk euphemistically about this user fee, what we're talking about is a tax that will be passed along to the consumer by costing him some points in front to obtain that loan in the first instance; isn't that so?

Mr. MAXWELL. Yes, sir.

Senator DIXON. Now tell me what that would mean for the average citizen in a small town. There's an alderman here from Kankakee. Let's talk about a citizen from Kankakee going in, wants to get a loan to buy a little home, $60,000, and he's going to talk about a loan, and so forth. How would that relate to his experience?

Mr. MAXWELL. May I defer to my friend, Mr. Spiller——

Senator DIXON. Sure.

Mr. MAXWELL [continuing]. Because he has actual statistics on this, and I'd like then come back on the FNMA-Freddie Mac part of it.

Mr. SPILLER. Let me give a quick example.

Senator DIXON. What I'm trying to do, of course, is to get this clear to folks out there, that we're not talking about something that happens in smoke and mirrors here. We're talking about something that real people are going to pay for.

Mr. SPILLER. Let's pretend that today is last Thursday, and the VA rate was 12½ percent, which is what it was last Thursday, and went to 13 percent on Friday. That's a politically set rate, and it was at 12½ percent last Thursday. To take that 12½ percent contract rate and bring it to market will take 6 points discount. So we have that for starters. We also have 2 points origination, which is what it takes to originate a loan in today's universe. The 6-point fee that is proposed for the VA would be added to the other 8, which comes to a total of 13 points, which would be required for an origination of a VA loan, presuming it was last Thursday, and with those 5 points in place.

Senator DIXON. Now let me——

Mr. SPILLER. One more step to it.

Senator DIXON. OK.

Mr. SPILLER. An average mortgage, VA, is $55,000.

Senator DIXON. Good. That's what I was going to ask you.

Mr. SPILLER. OK. The 13 points then is approximately somewhere—I didn't multiply it, but if you do, it's 13 points, and it's a $55,000 mortgage, so it's somewhere better than $7,000 would be required for that veteran to literally have the right to apply for a VA loan.

Senator DIXON. $7,150.

Mr. SPILLER. There we are.

Senator DIXON. Up front.

Mr. SPILLER. That's correct. Now there's two ways of doing this.

Senator DIXON. To get a $55,000 loan. That's what we're telling the folks.

Mr. SPILLER. If they pay it up front, they're not able to get a 100-percent VA loan, which is what the law was set in place for, and if they add it to the amount of the loan, we're letting that person start out with a loan that is about 6 to 8 percent greater than the value of the house, which just simply increases the opportunity for bankruptcy and other problems.

Senator DIXON. Sure. I thank you.

Mr. MAXWELL. And then, Senator, on the Freddie Mac, FNMA part of this user tax, if you add that on, what you would have to pay would be about one-quarter of a percentage point on the interest rate over the life of the loan, of the loans that we purchase. And that, in turn, would add about 8–10 percent of the mortgage amount of an average mortgage, to the cost to the home buyer of this property. So that could amount to—in the case of a $50,000 mortgage, $3,600.

Senator DIXON. So what you are telling us, Mr. Maxwell, what Mr. Spiller is telling us and what other distinguished witnesses have told us here so far is that we are talking about a very real thing. We're talking about a consuming public which already is having difficulty in affording a little home. That's part of the recent experience that all of us, I think, regret very much, and you are indicating that this will be a substantial additional real burden

on that ordinary citizen, on his ability to buy a home in the present marketplace in this country.

Mr. MAXWELL. There's no question about that, Senator Dixon.

Senator DIXON. I thank the chairman.

Senator HECHT. Thank you, Senator. You answered two of my first questions. So I am going to go to No. 3 on my list.

CONCERN OF SIZE OF FNMA'S PORTFOLIO

Mr. Maxwell, I am concerned about the ever-increasing size of FNMA's portfolio, because of the risk to FNMA, and ultimately, the Federal taxpayers, if interest rates go up on your debt. Why doesn't FNMA operate more like Freddie Mac and just turn its mortgages into mortgage-backed securities, and why don't you sell off more of your current $85 billion portfolio?

Mr. MAXWELL. Mr. Chairman, that question requires a somewhat lengthy answer, but I will deal with the various parts of it as quickly as I can.

In the past 4 years, we have materially reduced the risk on FNMA's mortgage portfolio, even though that portfolio has grown. At the same time, we have initiated a Mortgaged-Backed Securities Program which did not exist at FNMA, and we have about $36 billion in mortgage-backed securities outstanding at the end of 1984. We have earned $78 million of fee income on those mortgage-backed securities in 1984, which is a very important source of stability to the company. We have sold mortgages where the opportunity presented itself. We do not have the accounting means to sell mortgages that are below market at a loss without accepting that loss onto our income statement right away. And in view of the fact that we have lost money, that is difficult to do, but I can assure the committee that it is our intention and wish to dispose of as much of that portfolio as we possibly can, as quickly as we can.

Our inherited portfolio amounted to $57 billion on January 1, 1981, yielding 9¼ percent. That now amounts to $46 billion. So it's been reduced about 20 percent. And in the meantime, we have built a new portfolio that has a positive yield. But this is a long process, Mr. Chairman, and this tax would set it back very materially, if it's imposed.

Senator HECHT. Thank you. Mr. Fischer, Farmers' Home and HUD have for years run parallel programs on the rationale that HUD programs didn't reach rural areas. In the last 25 years, things have changed. FHA 235 and Farmers Home Administration houses are side by side in rural areas. HUD section 8 assistance is used in Farmers' Home apartments in rural areas. There are 2,600 HUD public-funded housing authorities in small communities and counties.

In light of all the housing assistance HUD provides in rural areas, why should there still be two Federal agencies providing housing subsidies?

Mr. FISCHER. Sir, I'll use Tennessee as an example. We have 89 rural offices under the Farmers' Home Administration in the State of Tennessee. We only have three FHA insuring offices for single family in the State of Tennessee. We don't feel that HUD can justify supporting the rural areas, because that's too far for the people

to have to come to make a loan application to get the service that they need from the FHA offices.

Senator HECHT. Thank you. Mr. Spiller, I am sure mortgage bankers have many loans in nonmetropolitan areas and have probably made some FHA 235 loans, when the program was larger. Would you make Government-insured loans for homebuilders to sell houses in rural areas, if we were to revise the Rural Housing Program?

Mr. SPILLER. Our people have been able, to my knowledge, to satisfy the demand that they have and have been able to generate loans into those areas with the tools they presently have. And if there's any research needed that we could develop later on, we can do that, but I think we're in pretty good shape on what we've been operating with right now.

Senator HECHT. Thank you. Mr. Thygerson, you indicate that Freddie Mac's passthrough mortgage-backed securities are essentially risk-free to the Government.

How would you assess the risk of holding mortgages in portfolio?

Mr. THYGERSON. Well, Senator, I can only speak for the way Freddie Mac has and continues to do business. We operate with roughly $80 billion in assets, and approximately 92 percent is financed either in participation certificates, which involve absolutely no interest rate risk, or CMO's, which is a hybrid of the participation certificate.

The other approximately 8 percent is debt-financed. That is, we buy multifamily mortgages, some of our single-family mortgages, and our adjustable rate mortgages, using various types of 2-, 5-, 10-, 20-year debt. The process of trying to—in a very hedged way—match up the maturities of mortgages, which are unknown—we don't know in any scientific way how long mortgages are going to last on the books—with debt is a risky proposition. We find that a more easy and effective hedge, is to use the CMO or PC technique, and it has been so for us as a corporation.

Senator HECHT. Thank you.

Senator Proxmire, you came in earlier today first. Do you have some questions?

Senator PROXMIRE. Yes, I do. I just have three questions for Mr. Maxwell.

Mr. Maxwell, you so strongly object to user fees that you even call them user taxes for some reason. This is a user fee because, as I understand it, this is a benefit to Fannie Mae.

Let me illustrate what I am talking about. The present budget calls for a fee of only 5 basis points in fiscal year 1986 and 8.3 basis points thereafter.

I understand that Fannie Mae's current borrowing cost is perhaps 50 to 75 basis points below what it would be if Fannie Mae did not have its current relationship with the Federal Government. In fact, your borrowing costs would actually be even higher, perhaps at least 100 basis points higher, because of the financial risks created by your portfolio of old loans.

The benefits you get from the Federal Government are measured by that spread of at least 50 basis points on your borrowing cost.

Why isn't a fee of only 5 or 8.3 basis points a fair charge by the Government?

Mr. MAXWELL. Senator Proxmire, let me answer that in two ways.

SUBJECT TO MARKET FORCES

First of all, it is true that most of the time our borrowing advantage over an AAA corporate, is about the way you state, say 50 to 75 basis points. The fact of the matter is that Fannie Mae is subject to market forces, and in 1981, for example, when we were losing $1 million a day and the market was losing confidence in us, our spreads over treasuries went to 200—as high as 200 basis points, and that difference between the AAA corporates and Fannie Mae was actually wiped out.

So I think the first answer I would give is that the degree of spread is determined by the market's perception of what is going on at Fannie Mae.

Senator PROXMIRE. But doesn't—before you get to your second—doesn't the 5 to 8.3 basis points—isn't that a very, very modest part of a—you concede that there is—at least some times there is a 50 to 75 basis point advantage to you?

Mr. MAXWELL. There is no question that out of 50 to 75 basis points, 5 basis points is not a large amount, but unfortunately, because of the volume that Fannie Mae is borrowing and particularly the volume of borrowing necessary to finance old mortgages that are in our portfolio, that amounts to an enormous amount in dollars to the company and therefore is something that we can't absorb.

If we could take 5 basis points out of the market now, in terms of buying mortgages at 5 basis points higher, we would certainly do it because it would help us to right the ship.

But the most important thing, and what I say in the testimony here, Senator, is that in 1968, when the Congress passed the Housing Act, which made Fannie Mae a private corporation, there was a specific tradeoff, if you will, between the limitations on Fannie Mae's business and the borrowing advantage. That is what we were given in order to get us to carry out a public purpose. That was a compact that was made with the shareholders who invest their capital in Fannie Mae, and we were told to be a self-sustaining private corporation under those limited circumstances.

We don't go beyond that business. But without that advantage we couldn't do that business at all.

So if you take away—I agree with Mr. Thygerson it is certainly a legitimate subject for public discussion—but if you take away that borrowing advantage, then you have really taken away the heart of Fannie Mae's whole existence, and you have to look at the other side.

And moreover, when the S&L's had their liabilities freed up without any corresponding freedom of their assets, it was one of the major factors that caused them the big problems that they got into in the early 1980's.

Senator PROXMIRE. Now, supposing the user fees are going to be enacted in any event—maybe they won't be, but it seems to me there is a good chance of that—what sort of user fees would you prefer?

Mr. MAXWELL. Would I prefer death by garroting or——

[Laughter.]

Senator PROXMIRE. I was kind of thinking of that, yes.

Mr. MAXWELL. I haven't really given much thought to that, Senator. [Laughter.]

If I could answer that in writing. I really would not prefer to have any additional costs added on to Fannie Mae's at the moment.

Senator PROXMIRE. Well, let me put it this way then: What fees would provide Fannie Mae with the greatest incentive not to act in ways that increase the potential risks to the taxpayer?

Mr. MAXWELL. I think that the only way—the honest answer to that is: The only way that it would be fair to impose a user fee on Fannie Mae would be to expand its asset powers so that they could have the ability to earn the fee and to make up for the old pre-1981 loans.

Senator PROXMIRE. Then a user fee may and borrowing may hit Fannie Mae harder than other agencies because Fannie Mae continues to borrow relatively short—you and I have discussed this before—in order to invest in long-term fixed rate mortgages. That financial approach created tremendous risk for the savings and loan industry in recent years.

Why shouldn't you be penalized for continuing that kind of risky strategy?

Mr. MAXWELL. Senator, I took to heart your advice which you gave me on that subject, and at this point in the proceedings, despite the size of our old portfolio, 17 percent of Fannie Mae's portfolio now consists of shorter term mortgages, ARM's and seconds.

Moreover——

Senator PROXMIRE. What percent, sir?

Mr. MAXWELL. Seventeen percent.

Senator PROXMIRE. Seventeen percent.

Mr. MAXWELL. Now, 16 or 17 percent of our current portfolio consists of shorter term assets; whereas, none of our portfolio at the time you gave me that advice consisted of that kind of asset.

Moreover——

Senator PROXMIRE. You have only got 83 percent to go.

Mr. MAXWELL. Well, we are working on it. We are really working on it.

Also, we have, I think, made Herculean efforts to increase the duration of our debt, and we are—in the new mortgages that we are buying—matching the duration of the debt with the duration of the life of the asset for the reason that you told me and that impressed me so much when we talked.

Senator PROXMIRE. Thank you, Mr. Chairman. My time is up.

Senator HECHT. Just one quick question: What is short term? How many years do you call it?

Mr. MAXWELL. Well, short term—I am not sure what Senator Proxmire meant, but short-term debt would be—our short-term discount notes are 1 year or under, but longer term—intermediate term debt is usually thought of as being 5 to 7 years, and long-term debt would be somewhere beyond that.

Senator HECHT. Thank you for clarifying that.

Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

I would just make one brief comment at the outset. I am very concerned about the direction we have been moving on a number of fronts with Federal policy in program areas that affect housing. We have big deficits and high-interest rates that discourage housing. We have a trade deficit that is hollowing out large parts of the economy and taking many of our best jobs overseas.

SQUEEZED OUT OF HOME OWNERSHIP

The bottom line, is that we are finding more and more people priced out of home ownership in this country. I think it is a terrible set of circumstances that causes us to have to acknowledge that. Federal policy generally is driving us away from home ownership rather than toward it. While people in the White House might not say this is the intent of their policy—and it may not be their intent, that is the effect. I think we have got to turn our policies around.

If we are going to make our private capital and free enterprise system work, I think we have got to give people a chance to acquire a home during their lifetime where families can live and thrive. If we take that out of reach of people in this country, we have given up one of the most important things that this country was put together to achieve.

So I feel very strongly about the general pattern of events that is taking us away from that.

I would like to ask for the record, Dr. Carlson, for you to expand on point 4 under your budget recommendations where you spoke in terms of eliminating at least $16 billion of lower priority programs in fiscal year 1986, and more in years beyond. I don't want to ask you for the list now, but I would like to get a sense of what you think ought to be on that low-priority list in addition to the freeze and other items that you mentioned earlier.

We have just come through the budget exercise. I can tell you it gets tough to slice out $4 or $5 billion. Now, $16 billion is a big number, and I would just like to see what your list looks like.

Mr. CARLSON. We were supportive of the President's plug that he put in there of $16 billion and picked up on that as an order of magnitude that it is worthwhile.

Senator RIEGLE. Fine.

Mr. CARLSON. I will be glad to give you alternative formulas that we think would be reasonable.

Senator RIEGLE. To the extent that you can identify specifically what constitutes $16 billion of lower priority programs, I would like to take a look at that list.

[The following information was subsequently submitted for the record:]

Mr. CARLSON. Senator Riegle, we are recommending that the domestic discretionary spending cuts and eliminations totaling about $16 billion, accepted by the Senate Budget Committee from President Reagan's requested cuts, are acceptable and necessary to arrive at the magnitude of total spending reduction. We oppose tax-like user fees which are not included with those spending reductions. We urge user fees be removed from the package and instead thereof the $1.2 billion of savings over 3 years be reached by accepting the additional reductions in housing spending programs requested by President Reagan.

Senator RIEGLE. I appreciate the testimony of everybody at the table today, but I am concerned about the impact of the administration's recommendations for rural housing. I am wondering, Mr. Fischer, if you could tell us how many Farmers Home Administration field offices there are today in Tennessee, say, versus the number of HUD offices? Would you know that number offhand?

Mr. FISCHER. Yes, sir, there are 89 rural offices under Farmers Home Administration and three FHA offices.

IMPLICATIONS OF CLOSING 86 OFFICES

Senator RIEGLE. Well, what are the implications of folding the 89 offices into the 3? Is that feasible? Is it rational to imagine that we can accomplish that without enormous disruption?

Mr. FISCHER. No, sir, it is really not feasible because these offices do other things besides just handle home loans. They have other functions that they handle for the different communities in the rural area, and it would be a great disaster to the people that are trying to get home loans in the rural areas because the three offices are in the major three cities across the State, and they would have to travel quite a lot of distance to get their loans approved.

Senator RIEGLE. If these Farmers Home offices are no longer out there providing services in these 89 different locations throughout the State of Tennessee, what other home lenders would be available in rural communities to step in and meet the need?

Mr. FISCHER. Well, there would have to be some changes made, I would presume, and in some areas S&L's and other lenders could handle these loans. However, there are rural areas where there are no S&L's and no other lenders in the community. I don't know what they could do.

Senator RIEGLE. Yes; that is my concern. I don't see how anything is going to spring up very quickly in that respect. The movement is not in that direction. As I watch the evolution of the financial industry as banking deregulation proceeds in this committee, the trend is away from home lending, particularly out in the smaller communities of the country.

Mr. FISCHER. Right.

Senator RIEGLE. You know, the big shooters in this business who want to, go with nationwide banking, don't really plan to reach out to those 89 communities where the Farmers Home is operating today. I am not sure what the people in these rural areas are going to do.

Mr. FISCHER. A lot of these people are elderly people. They are not young people.

Senator RIEGLE. Well, that makes the problem even more difficult.

Let me move to a different area. Mr. Spiller, you were talking earlier about what would happen with the imposition of user fees, which many of you regard as a form of a tax. Some have called it a user fee, but it is a tax, and it really violates the no-tax pledge, and I agree with your point on that.

But if this user fee is adopted—which would exclude about 690,000 households and 500,000 families who now qualify for home ownership, what kinds of people would be excluded, Mr. Spiller?

Who are most likely to be the ones shoved out of the housing market?

Mr. SPILLER. People that are now marginally qualifying, moderate income people, people buying——

Senator RIEGLE. Give me a description of a typical family. I mean, what would they do for a living, how much would they earn?

Mr. SPILLER. These are people who are probably earning between $12,000 and $20,000. They are buying a house for the first time. Probably there's two, or one and a half to two wage earners in the family, both husband and wife working. Many of them are Vietnam veterans planning to buy a home for the first time.

You know, to go back to the example that I used before, if my organization, which is a very large residential lender; that is, our only business is residential lending, we would decline to take any VA loan at all if we had to charge 13 points. That would be immoral in our view because that customer would perceive that we were the bad guy and we were keeping those points. I don't want to do business that way.

Senator RIEGLE. I am right up to my limit on time, but that group, that $12,000 to $20,000 income group, many of them veterans, are typically families with perhaps two people working to generate income, struggling to make progress, and to produce for the country, try to acquire a home, this is the only way they can really accumulate some equity, assuming we save the home interest deduction. Isn't this a way not only to acquire a home but begin to accumulate some capital in the form of your home?

Mr. SPILLER. Right.

Senator RIEGLE. Where do those people end up if they don't get into home ownership? Are they going to be renters for life? Is that what we are saying?

Mr. SPILLER. They are renters for life, or they are doubling up with parents or perhaps are living in a tent someplace.

Senator RIEGLE. Well, I don't think we need a policy that increases the number of landlords. We need a policy that increases the number of homeowners. I hope we can go that way.

Senator HECHT. Senator Sasser.

Senator SASSER. Thank you, Mr. Chairman. I might say there's been a lot of talk here today about user's fees and Senator Riegle and I just participated in the exercise before the Budget Committee on user's fees. I offered an amendment during markup of a first concurrent budget resolution which would have eliminated these onerous fees and, as I recall, Senator Riegle supported me, and we carried by a substantial margin, Mr. Chairman.

But, unfortunately, the will of a bipartisan majority of the Senate Budget Committee was wiped out in one stroke with the comprehensive mark that was adopted at the end of the markup. I think that's very regrettable.

Now, in addition to my objection to the practical effects of such user fees, I believe that user fees in this instance represent a fundamental change in the character of some of the affected institutions. And any change of that nature, I believe, very strongly, should be considered by this full committee and, certainly, in your subcommittee, Mr. Chairman.

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It is my intention to introduce legislation in the near future on this matter and the legislation will be similar to the amendment which passed the Budget Committee.

Mr. Spiller, you discussed in my absence a moment ago, I'm told, with Senator Dixon, the impact on the individual home buyers of increases in the upfront costs of buying a home. These upfront increases would come from new user fees or from increases in the existing fees.

Now, obviously, a great many potential buyers would be forced out of the market at the lower end of the income scale and figures indicate, I think, as Senator Riegle pointed out, that almost 700,000 buyers would be prohibited from entering the market if these fees were adopted.

RIPPLE EFFECT ON MARKET

Now I'd like to ask you and any other witnesses who might care to respond what effect the loss of the lower end of the market, the lower end of the home buying market, has on the market overall. Isn't there a ripple effect moving up from the bottom through the center and even up to the top, a shock wave that moves upward throughout the whole system, if you exclude a great number of these prospective home buyers from the lower end of the scale?

Mr. SPILLER. It would affect both the ownership market and also the rental market. And particularly in areas, let's say, where there is a very low-vacancy factor on rental housing. It would simply make that problem much more severe and escalate those rents very, very dramatically. I've seen in our area, which is New England, late last fall, where we had an average price increase on housing. It went up 20 percent in something like 90 days. And this kind of pressure would build throughout that whole marketplace.

For the person buying the lower priced house, they're simply gone from the marketplace. And the whole thing affects both sides. And it just creates a very strong imbalance in that whole housing sector.

Senator SASSER. Does anybody else wish to comment on this today?

Mr. CARLSON. There is a little unrecognized fact. Home ownership, when we take it upon ourselves, we stretch ourselves to get into the home. We save at a very fast rate. As our income goes up, we continue to save. And the net savings not needed for the house goes to business and industry.

You're talking about cutting out an engine and we have done this effectively since 1980. An engine for savings and investment and economic growth through the mechanism of home ownership.

Now I think it's rather important to know, because I was one of those who was involved in the creation of the act of 1974 with Senator Proxmire and others. You have suggestions from the Senate Budget Committee. You do not have the requirement to find the funds from user charges or any other program that they suggest. Your only requirement is to come up with the dollar amount that the Budget Committee has come up with.

And what we're arguing here is that there's some other lower priority programs, at least I am, to take those cuts because those

are necessary for the reasons that Senator Riegle talked about. But you don't need to take the ones that were suggested and brainstormed, and evidently looked at rather brashly, and take those and have those as a committee mark. It need not be that. It can be something else.

Senator SASSER. Well, I think that's a point well made. And I think, Dr. Carlson, your point that home ownership is an engine for savings and creating capital is something that's not well appreciated, I think, perhaps by the administration, and perhaps generally.

Home ownership is good public policy. It's good social policy. And as you point out very effectively, it's good economic policy. And we need to be saving and creating capital in this economy. If that's one way to do it, we ought to do it. You know, it's interesting to note that the Japanese run a deficit percentagewise as large as the deficit the U.S. Government runs. The difference is they finance their deficit internally from internal savings. Unhappily, we started financing at least half of ours from external funds coming in from abroad that we are borrowing.

And I see ourselves moving in the same direction that some of the countries south of the border have been moving. We're becoming a debtor nation. At some point, that's going to fall due.

So that's a point well made, Dr. Carlson, about it being an engine for saving and creating capital.

Mr. CARLSON. Thank you, Mr. Chairman.

Senator HECHT. Thank you.

Let's go right on to the second panel, if we can, please. Thank you, gentlemen.

[Pause.]

Senator HECHT. Would the second panel please come up and take their seats, please? Do you mean none of them are here? Is the other panel here? Well, let's take who is here.

Mr. Volgy.

Mr. VOLGY. Mr. Chairman.

Senator HECHT. We'll start with you since you're the only one on the panel so far, OK?

Mr. VOLGY. Thank you, sir.

Senator HECHT. Will you send word down to get the others up here? Oh, Mr. Riley's here. Fine. Thank you.

OK, Mr. Volgy.

STATEMENT OF TOM VOLGY, COUNCIL MEMBER, TUCSON, AZ, THE NATIONAL LEAGUE OF CITIES

Mr. VOLGY. Thank you, Mr. Chairman. My name is Tom Volgy, and I am from Tucson, AZ. I'm on the city council there. I am also the vice chair of the Transportation Steering Committee for the National League of Cities. I've provided written copies of my comments to the committee and I don't want to take up your time and bore you with reading that, but I would like to offer a few clarifying remarks, sir, if I may.

ONEROUS EFFECTS OF CUTS

We believe, at the National League of Cities, and we believe personally in Tucson, that the proposed cuts in public transportation, which is what I would like to talk about, are onerous and damaging in many respects. The effects that we see are effects on our ability to move people around in our communities. We see onerous effects on our employment situation, on our local economy, and on the quality of life of our cities.

I would like to offer for you all, if I may, just in a few minutes, the effects that the proposed budget cutbacks with respect to the administration's proposal, the effects that those will have on the city of Tucson.

I offer Tucson as an example not because I'm here to ask for special consideration, but because, in many ways, Tucson is the best case. We are a rapidly growing community. We've a very dynamic and strong economy. And, yet, we are going to have substantial problems with the proposed cuts.

In transportation alone, we have enormous problems in our community. As a rapidly growing city, we are making major investment in new infrastructure to accommodate the growth that is moving here. And while we recognize that our problems are very different from older, established cities that are struggling to maintain their existing infrastructure, it's costing us at least as much, and sometimes more, to develop new infrastructure.

In the transportation area alone, we have 60 percent more vehicles registered in our community than there is road space available for them. We require $2.2 billion in additional road and transportation construction to meet the transit and road needs we will have over the next 20 years.

We offer in our community a balanced approach to all of this, combining both roads and transit services on a 10-to-1 ratio. And we have a very strong local investment, sir, both at the State and at the local level to deal with these programs.

Of those, the Federal assistance that we require is a very, very small share. Yet, that share is critical. We fund our programs through a combination of State lottery, gas tax, sales tax, local general obligation bonds, and of those, a fraction of it really comes from the Federal Government.

Yet, if we lose that Federal support, we don't believe that we can make up the difference any more at the local level because our investment in our infrastructure needs is so heavy. We cannot, we believe, raise taxes further unless we end up taking away from other crucial infrastructure needs as well.

We cannot shift the burden out of the public safety or trash collection sector or economic development because we know the effects it will have on our crime problems, on jobs, or on health in our community.

So we are basically reduced to one of two choices if the proposed cuts go into effect. We can reduce the level of service, and we can increase our rates. But, then, we believe that, even in Tucson, in a healthy economy, we'll cripple our street network, which is already greatly inadequate. We know from past experience and previous rate increases, or reductions in services, that for every 10-cent in-

crease we have in rates, we lose approximately 1.2 million riders annually. Some of them have no other transportation opportunities and others go back in their cars and on the streets.

To deal with the proposed reductions, we would have to reduce service and increase rates simultaneously. And perhaps to the tune of 40 cents or more for rate increases. We think that will lead to a loss of anywhere from 4 to 5 million rides a year, annually, in our community. And, that, in turn, would totally decimate our ability to move people around in our community.

In the long run, we very strongly believe that such changes will have enormous consequences for our citizens, for our business community, and the overall quality of life in our city.

Mr. Chairman, this is from a good community, a rapidly developing community, a community in some prosperity, a community with very low level of formal unemployment. I shudder to think of the impact on less prosperous cities elsewhere that are facing very different kinds of challenges.

This is why, Mr. Chairman, small and large cities, rapid-growing and nongrowing cities alike, that exist in our coalition in the National League of Cities, are so fundamentally opposed to these cuts.

Mr. Chairman, we believe in balancing the budget, and we believe that the deficit issue must be clearly addressed. But we propose instead an across-the-board freeze in all categories of spending. That approach, we believe, would be painful to us also. But it is one which we can live with without substantially changing the quality of our cities in the delivery of basic urban services.

Thank you for your time, Mr. Chairman. And I would be pleased to answer any questions if I can.

Senator HECHT. Thank you very much.

[The complete prepared statement follows:]

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STATEMENT OF

MR. TOM VOLGY

COUNCILMEMBER, TUCSON, ARIZONA

on behalf of

THE NATIONAL LEAGUE OF CITIES

on

THE PRESIDENT'S BUDGET PROPOSAL FOR PUBLIC TRANSPORTATION

before

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

March 25, 1985

Mr. Chairman, members of the Committee; I am Tom Volgy, Councilmember from Tucson, Arizona and Vice Chairman of the National League of Cities Transportation and Communications Committee. I am here today to testify on behalf of NLC and the 15,000 cities we represent on the President's budget proposal for public transportation.

Let me say at the outset that the National League of Cities is opposed to the President's budget proposal for mass transit. That it no way indicates any lack of concern about the staggering federal deficit. Deficit reduction is in fact one of our top priorities. But, during the past five years, most major urban programs have taken cuts of close to 50 percent. While we are more than willing to freeze domestic spending at current funding levels as part of a deficit reduction package, we fail to understand why our 13 percent of the federal budget must bear the burden of the deficit while the rest of the budget grows.

As most members of this committee know, NLC supported the Surface Transportation Assistance Act of 1982 only after securing assurances from the Administration that the increased revenues generated by a penny of the five cent gas tax would supplement, not supplant, existing transit revenues. What we believed we negotiated in good faith and ultimately supported was legislation designed to meet our transit needs and priorities, based on a tax increase that would not substitute new revenues for existing revenues.

Yet here we are, a little over two years later, looking at an Administration proposal that would totally eliminate all general revenue contributions to mass transit leaving only the penny of the gas tax available for capital assistance.

As you know, the Administration is proposing to eliminate operating assistance. They are looking to local governments to supply the major share of funding for public transportation without any consideration of revenue sources. However, cities already pay for the preponderance of operating costs. In 1982, we accepted a reduction in funding for operating assistance from the fiscal 1982 level of $1.035 billion to the $875 million level, but we did not agree that federal financial participation in operating assistance should be eliminated.

The consequences of eliminating operating assistance at the local level are simple: fare increases, service reductions or both, and in some cases the elimination of any public transit services entirely. The net effects of reductions in the availability of mass transit will be less mobility for the elderly, the poor and the unemployed, more traffic congestion, more pollution, reductions in retail sales, and more outlays for highway construction. And let me point out that each of these effects has a monetary price tag --a greater need for food stamps, a longer time on unemployment compensation, greater outlays for pollution control, a loss of local revenues, and more funds for additional highway construction.

No other developed country in the world expects its public transit system to be self-supporting. And regardless of federal expectations, transit systems in the United States will never be self-supporting either. While cities have risen to the challenges posed by cuts in domestic spending over the past several years by raising taxes and reducing services, and while some cities would be willing to see if they can find sources of funding for mass transit other than the fare box, eighty percent of them have one or another type of statewide tax limit. For example, Charlotte, North Carolina is prepared to raise local taxes to help absorb reductions in operating assistance, but they are precluded by state law from doing so.

Other cities, regardless of state law, simply have nothing to tax. Let me give you just one example. The city of Johnstown, Pennsylvania with a population of 35,500, has an unemployment rate of 14 percent and 38 percent of their population living on fixed incomes. With statistics like that, it is clear they are not in a position to raise taxes. The last transit cut of 27 percent was dealt with by reductions in service. The transit dependent community--which in this case is significant--simply cannot afford increased fares. The already-reduced provision of service coupled with increased fares would ultimately result in the total elimination of a mass transit system in a community that cannot function without one.

At the same time the Administration has proposed to abrogate any federal responsibility for transit operating costs, the Supreme Court renders a decision (Garcia v. San Antonio) that can only result in increased costs, not only in transit, but across the board in city operations.

In 1974, Congress extended the provisions of the Fair Labor Standards Act to state and local governments. In 1976, the Supreme Court (in NLC v. Usery) invalidated this law as an "unwarranted intrusion in the integral operations of state and local governments." On February 19th, the Supreme Court overturned this decision.

The issue came before the Supreme Court because the United States Department of Labor, interpreting an earlier Supreme Court decision and an act of Congress, determined that mass transit was not a traditional function of state and local government. Local governments provide public transit because no one else does. But if it is not our responsibility--and all three branches of the federal government have taken positions indicating that someone other than local governments has responsibility--then we can only conclude that it is a shared responsibility.

While the full impact of this decision has not yet been determined, we believe it has the potential to be significant. It has never been the minimum wage provisions that were of concern. Cities compete in the marketplace for their employees and of necessity pay wages comparable to the private sector.

It is the maximum hours provisions that are problematical. The rigid application of the work week concept that allows for no flexibility to average hours over more than seven days guarantees an overtime liability to local governments which are responsible for providing around-the-clock services. Our current work schedules have been negotiated at the bargaining table; not unilaterally imposed by either side. And, as I'm sure you understand, we cannot unilaterally abrogate agreements which establish the work schedules in our various departments to minimize or avoid potential overtime liability. Our contracts with transit workers cannot simply be changed to permit use of only part time employees and thereby avoid new overtime liability.

In transit, there is even more uncertainty about exactly when the application of FLSA began. We may be facing a back pay liability that began in 1979.

The Administration believes that the proper federal role in transit is to assist in capital investment. The logic of providing funds to purchase capital equipment, while withdrawing funds needed to operate and maintain equipment, escapes us. In effect, the federal government is encouraging us to be wasteful, telling us not to maintain existing equipment but to throw it out and buy new. It seems to us that, given current fiscal constraints at both the federal and local level, this is folly indeed.

NLC RECOMMENDATIONS

As I said at the outset of my statement, the cities are willing to help reduce the deficit. But we suggest Congress take a difference approach from that proposed by the Administration.

First, NLC urges Congress first to impose an across the board freeze on all items in the budget except means-tested entitlement programs and interest. Our proposal includes all city programs, defense, Social Security, and tax expenditures, and would result in over $70 billion in savings without shifting mandated responsibilities and new burdens to other levels of government. It means we support a reduction in transit assistance to cities by freezing such assistance at current levels in FY '86.

Second, NLC proposes that Congress expand its view of the budget to include not only direct expenditures for a given functional area but the tax expenditure impacts on functional policy areas as well. For example, the availability of adequate parking facilities has an impact on the commuting choices made by employees. Our tax code encourages construction of such facilities by providing a mortgage interest deductions and tax exempt financing for the owner of such an enterprise. Yet these tax expenditures are not viewed in the context of overall transit policy or budget policy.

The recently-enacted tax law permits employers to fully write off parking subsidies for their employees, but caps the monthly write-off for transit passes at $15 a month.

IRS has developed new regulations designed to tax employees who commute in employer-owned vehicles--but this too is not being viewed as part of overall transit policy. If one were to assume that Congress will not act to alter this latest IRS ruling, wouldn't it make sense to view this additional income to the federal treasury as an offsetting receipt applicable to overall transit expenditures?

Third, Mr. Chairman, NLC believes that if the Administration or Congress wants to increase spending in any area, they should increase taxes to pay for it so that every dollar of savings from program freezes or reductions, reduces the federal deficit. Your Committee is a pioneer of that concept in airport, highway and transit financing. NLC has supported that approach--as we did in supporting the gas tax increase in 1981--and will continue to do so to finance critical needs and priorities.

I appreciate the opportunity to present our views to the Committee. You have a difficult task ahead of you and we are more than willing to provide whatever assistance we can.

Senator HECHT. Mr. Riley, are you ready?

STATEMENT OF JOSEPH P. RILEY, JR., MAYOR OF CHARLESTON, SC

Mr. RILEY. Thank you very much, Mr. Chairman and members of the committee. If the committee has no objection, I will deliver my remarks standing and go over a few pictures that I brought of my city.

Senator HECHT. It would be refreshing.

Mr. RILEY. Sir?

Senator HECHT. It would be refreshing.

Mr. RILEY. Well, thank you very much.

As a former legislator, a State legislator, I know how tiresome seated hearings and the reading of prepared remarks can be. I would ask that my remarks be accepted into the record and will try to go over them briefly from some notes that I made.

Senator HECHT. They will be. Thank you. And I don't know whether you heard or not, please limit your time to 5 minutes. Mr. Delaney, too.

Mr. RILEY. I had not, Mr. Chairman, but I will.

Senator HECHT. OK.

Mr. RILEY. I'm Joe Riley, the mayor of Charleston, SC, and vice president of the U.S. Conference of Mayors, whom I represent this afternoon.

I appreciate very much this opportunity to represent my city and the cities of our country because we believe that there is nothing short of a severe urban crisis confronting us all.

TALE OF TWO CITIES

The President has talked about the city shining upon the hill. In America, most often, we have not that but rather a tale of two cities. In my city, we have the tale of great beauty. It's one of the most beautiful and historic cities in the United States. But we also have the tale like every American city, of ghettos that still remain, deteriorated and dilapidated housing that forms not only an eyesore but ruins the ability of neighborhoods to be restored and to function as neighborhoods.

Housing like this is in every city in the United States. The modest urban program that was begun in a bipartisan effort many years ago has turned dilapidated housing into homes like this, transforming ghettos into neighborhoods. But our work, Mr. Chairman, has only begun.

It has been said that in America we have an interesting nation. We have great wealth at the national level, great need and poverty at the local level and, as luck would have it, everybody lives at the local level.

The urban partnership was developed modestly and bipartisanly over the last decade or two. Since 1979, the city programs in the Federal budget have decreased 50 percent; during the time that the deficit quadrupled, city urban programs were reduced by 50 percent. We are still reeling from those substantial cuts. If the theory is to leave cities to their own resources, that will not work, for the few caravans that passed each other in the midpart of this century.

The wealthy and the businesses moving out and the caravans of the rural poor moving in have left the cities of our Nation without the resources within their boundaries to meet the problems confronted by this, the most urban Nation in the world.

We have not asked the Federal Government to do our dirty work, to keep our streets safe, to maintain neighborhood coalitions and to make cities work. We only ask for a modest Federal/city partnership.

The U.S. Conference of Mayors does not ask for additional funding of urban programs, even though we could make a case, we believe. But, rather, our board just passed a bipartisan resolution supporting a freeze on all nonmeans-tested programs, and also modest increases in revenues from sources other than the personal income tax.

We believe that we as a country can face and deal with the Federal deficit problem without abandoning our cities, without abandoning the people who live in them.

The U.S. Conference of Mayors this winter conducted a survey of our American cities and produced this document, "The Impact on American Cities of the Administration Federal Budget for the Fiscal Year 1986." We have copies of this for the members of the committee, and ask that it be accepted into the record.

In summary, Mr. Chairman and members of the committee, the survey shows that the cities of our country are reeling from the cuts that we have already received and that we are unable to accept further cuts.

In housing, we have waiting lists. In one city, there's a 25-year waiting list for assisted housing. The Community Development Black Grant Programs which in my city have helped transform sites like this into neighborhoods, has already had a 40-percent cut. The 10 percent the administration recommends coupled with the folding in of the Farmers Home Administration programs would mean another 24- percent cut for us, a 67-percent cut in the last 4 years. If you factor in inflation, it's an 80-percent cut, while the cost of rehabilitating housing like this has gone up probably 30 or 40 percent.

In summary, Mr. Chairman, the Urban Development Action Grant Program has been a way of leveraging private dollars in my city. It has attracted over 85 million dollars' worth of private investment, a couple of thousand jobs. We've got plans on the drawing board; all the cities in our country do. Cutting that program severely, or even certainly reducing it, would deal a death blow to the economic revival that has been underway in the cities of our country.

I appreciate these few minutes for some quick comments. I'd be delighted to answer any questions at the conclusion of the panel.

Senator HECHT. Thank you very much.

[The complete prepared statement and accompanying documents follow:]

UNITED STATES CONFERENCE OF MAYORS

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STATEMENT

BY

JOSEPH P. RILEY, JR.
MAYOR OF CHARLESTON, SC

VICE PRESIDENT OF
THE UNITED STATES CONFERENCE OF MAYORS

BEFORE THE

SUBCOMMITTEE ON HOUSING & URBAN AFFAIRS
COMMITTEE ON BANKING, HOUSING & URBAN AFFAIRS
U.S. SENATE

MARCH 25, 1985

SENATOR HECHT AND MEMBERS OF THE SUBCOMMITTEE, I AM JOSEPH P. RILEY, JR., MAYOR OF CHARLESTON, SOUTH CAROLINA AND VICE PRESIDENT OF THE U.S. CONFERENCE OF MAYORS.

I APPEAR BEFORE YOU AT A TIME WHEN THE VERY FUTURE OF MOST OF THE PROGRAMS UNDER THE JURISDICTION OF THIS COMMITTEE IS UNCERTAIN. AND I APPEAR BEFORE YOU TO REAFFIRM THE POLICY OF THE U.S. CONFERENCE OF MAYORS THAT ASSISTED HOUSING PROGRAMS, COMMUNITY DEVELOPMENT BLOCK GRANTS, URBAN DEVELOPMENT ACTION GRANTS, SECTION 312 LOANS, SECTION 108 LOAN GUARANTEES, HOUSING DEVELOPMENT ACTION GRANTS, RENTAL REHABILITATION GRANTS AND PUBLIC TRANSPORTATION ASSISTANCE MUST BE MAINTAINED AT ADEQUATE FUNDING LEVELS. AS RECENTLY AS JANUARY 17 OUR STANDING COMMITTEES MET, DURING OUR MID-WINTER MEETING AND, IN A CONSCIOUSLY BIPARTISAN MANNER, ADOPTED POLICY AGAIN TO THIS EFFECT. THESE PROGRAMS ARE CRITICAL TO THE FEDERAL-CITY PARTNERSHIP. WE CANNOT AFFORD TO ABANDON THEM.

AND BECAUSE THESE PROGRAMS ARE SO IMPORTANT, THE EXECUTIVE COMMITTEE OF THE CONFERENCE OF MAYORS VOTED JUST OVER TWO WEEKS AGO TO SUPPORT A FREEZE FOR AT LEAST ONE YEAR ON ALL NON-MEANS TESTED PROGRAMS IN THE FEDERAL BUDGET AND TO SUPPORT INCREASED REVENUES FROM MEASURES OTHER THAN THE PERSONAL INCOME TAX. WE FEEL THAT THROUGH THIS APPROACH THE FEDERAL GOVERNMENT CAN REDUCE THE DEFICIT WITHOUT ABDICATING ITS RESPONSIBILITIES TO THE CITIES OR TO THE PEOPLE WHO LIVE WITHIN THEM. WE URGE THIS COMMITTEE AND

THE CONGRESS TO TAKE THIS APPROACH IN THE DEVELOPMENT OF A FAIR FEDERAL BUDGET.

THE HOUSING, COMMUNITY DEVELOPMENT, AND PUBLIC TRANSIT PROGRAMS WHICH THIS SUBCOMMITTEE HAS AUTHORIZED HAVE SHAPED AMERICAN CITIES TODAY. THEY HAVE CONTRIBUTED TO THE BUILDING BOOM IN MANY OF OUR DOWNTOWN AREAS, TO THE REVITALIZATION OF INNER CITY NEIGHBORHOODS, AND TO EFFORTS TO TRY TO MEET THE DEMAND FOR HOUSING AFFORDABLE BY LOW INCOME PEOPLE IN THIS NATION. BUT THEY HAVE BEEN CUT IN THE LAST FEW YEARS, AND THERE IS SO MUCH MORE TO DO.

HOUSING

THE CONFERENCE OF MAYORS SUPPORTS AN ALL INCOME HOUSING POLICY, WITH PARTICULAR EMPHASIS ON MEETING THE NEEDS OF LOWER INCOME PERSONS. THE LACK OF AVAILABLE HOUSING AFFORDABLE BY LOW INCOME PEOPLE IS A PARTICULAR PROBLEM IN MANY OF OUR CITIES. WE CONDUCTED A STUDY OF HOUSING NEEDS AND CONDITIONS IN AMERICA'S CITIES LAST JUNE AND FOUND THAT:

- SIXTY-ONE PERCENT OF THE 66 CITIES SURVEYED HAD CLOSED THEIR WAITING LISTS FOR ASSISTED HOUSING;
- FIFTY-FIVE PERCENT OF THE RESPONDENTS SAID THAT ONE-FOURTH OR MORE OF THEIR SECTION 8 CERTIFICATES HAD TO BE RETURNED BECAUSE ORIGINAL RECIPIENTS COULD NOT FIND SUITABLE DWELLINGS WITHIN THE TIME ALLOTTED.

- o THE AVERAGE WAIT FOR ASSISTANCE IN THE SURVEYED CITIES WAS 20 MONTHS, WITH ONE CITY REPORTING A WAIT OF 302 MONTHS FOR ASSISTANCE;
- o SEVENTY-SEVEN PERCENT OF THE CITIES SURVEYED SAID THE DEMAND FOR LOW INCOME HOUSING ASSISTANCE HAD INCREASED OVER THE LAST TWO YEARS; AND
- o EIGHTY-NINE PERCENT OF THE SURVEYED CITIES SAID THAT THE PRIVATE SECTOR WOULD NOT BE ABLE TO MEET LOW INCOME HOUSING NEEDS WITHOUT PUBLIC SUBSIDIES.

TO UNDERSTAND THE POSSIBLE EFFECT OF THE ADMINISTRATION'S BUDGET PROPOSALS ON OUR CITIES, THE CONFERENCE OF MAYORS CONDUCTED A SURVEY, RELEASED EARLIER THIS MONTH, <u>THE IMPACT ON AMERICA'S CITIES OF THE ADMINISTRATION'S FEDERAL BUDGET FOR FISCAL YEAR 1986.</u> WITH YOUR PERMISSION I WOULD LIKE TO SUBMIT A COPY FOR THE RECORD.

IN OUR SURVEY WE FOUND THAT WAITING LISTS FOR ASSISTED HOUSING WOULD LENGTHEN IN 93 PERCENT OF THE CITIES RESPONDING, AND THE PROPOSED MORATORIUM ON ALL NEW UNITS OF ASSISTED HOUSING WOULD HAVE AN ADVERSE OR VERY ADVERSE EFFECT ON THE AVAILABILITY OF HOUSING AFFORDABLE BY LOW INCOME PEOPLE IN NEARLY NINE OUT OF EVERY 10 CITIES RESPONDING. NEARLY ONE-HALF (46 PERCENT) OF THE CITIES EXPECT THE EFFECT TO BE VERY ADVERSE; ANOTHER 42.3 PERCENT OF THE CITIES EXPECT THE EFFECT TO BE ADVERSE. SIXTEEN CITIES INDICATE THERE WILL BE NO IMPACT.

THE AVERAGE WAIT FOR SECTION 8 UNITS IN THE CITIES RESPONDING WAS 26.3 MONTHS, THE AVERAGE WAIT FOR SECTION 202 WAS 18 MONTHS, AND THE AVERAGE WAIT FOR PUBLIC HOUSING WAS 23.9 MONTHS.

IN MY OWN CITY OF CHARLESTON THE MORATORIUM WOULD HAVE A VERY ADVERSE EFFECT. WE CURRENTLY HAVE 1800 FAMILIES ON THE WAITING LIST FOR ASSISTED HOUSING. THE TWO YEAR MORATORIUM WOULD MAKE DEVELOPMENT UNATTRACTIVE TO PRIVATE DEVELOPERS AND STOP US FROM BEING ABLE TO ADD NEW UNITS. OUR WAITING LIST WOULD LENGTHEN AND IT WOULD BECOME EVEN MORE DIFFICULT FOR RESIDENTS TO FIND HOUSING. THE PROPOSED ONE YEAR ELIMINATION OF FUNDS FOR PUBLIC HOUSING MODERNIZATION WOULD SHUT DOWN OUR ON-GOING REHABILITATION PROGRAM AND LEAVE 775 UNITS IN IMMEDIATE AND SERIOUS NEED OF REPAIR.

FEDERAL FUNDING FOR SUBSIDIZED HOUSING PROGRAMS HAS BEEN REDUCED BY ALMOST 66 PERCENT SINCE 1981. THE ADMINISTRATION'S BUDGET PROPOSAL FOR THE NEXT FISCAL YEAR WOULD PUT A TWO-YEAR HOLD ON FEDERAL SUPPORT FOR ADDRESSING THE GROWING LOW INCOME HOUSING BACKLOG. IF THIS IS ALLOWED TO HAPPEN, THE DESPERATE HOUSING SITUATION IN MANY OF OUR CITIES WILL ONLY WORSEN. WE APPLAUD THE SENATE BUDGET COMMITTEE FOR REJECTING THIS TWO YEAR MORATORIUM AND URGE THAT THIS POSITION BE AGREED TO BY THE FULL SENATE. WE OPPOSE, HOWEVER, THE COMMITTEE'S LACK OF FUNDING FOR THE RENTAL REHABILITATION AND HODAG PROGRAMS.

COMMUNITY DEVELOPMENT BLOCK GRANT

THE FY86 BUDGET PROPOSALS WOULD CUT CDBG BY 10 PERCENT. A SHIFT IS PROPOSED AS WELL WHICH WOULD CHANGE THE RATIO OF FUNDING FOR ENTITLEMENT CITIES AND SMALL CITIES FROM 70:30 TO 60:40. THIS IS INTENDED TO COMPENSATE FOR THE PROPOSED TRANSFER OF THE FARMERS HOME ADMINISTRATION'S COMMUNITY FACILITIES PROGRAM TO THE SMALL CITIES PROGRAM WITH NO FUNDING. THESE TWO PROPOSALS TAKEN TOGETHER WOULD RESULT IN A 23 PERCENT CUT FOR ENTITLEMENT CITIES AND PUT SMALL CITIES IN COMPETITION WITH RURAL AREAS FOR FUNDING. THE CONFERENCE OF MAYORS OPPOSES BOTH THE PROPOSED CUT AND THE FUNDING SHIFT AND URGES THAT CDBG BE MAINTAINED AT LEAST AT THE CURRENT LEVEL, WITH THE CURRENT FUNDING SPLIT BETWEEN ENTITLEMENT JURISDICTIONS AND SMALL CITIES. WE WILL WORK TO REVERSE ON THE FLOOR THE SENATE BUDGET COMMITTEE'S PROPOSED 10 PERCENT CUT IN CDBG.

ALMOST 93 PERCENT OF THE CITIES RESPONDING TO OUR SURVEY INDICATED THAT THE PROPOSED 10 PERCENT CUT IN COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS AND CHANGE IN THE ENTITLEMENT CITIES/SMALL CITIES RATIO FROM 70:30 TO 60:40 WOULD HAVE EITHER AN ADVERSE OR VERY ADVERSE EFFECT. THREE CITIES REPORT THE EFFECT WOULD BE MINIMAL. SEVEN SAY THERE WOULD BE NO EFFECT. AT LEAST THREE OF THESE DO NOT NOW RECEIVE CDBG FUNDS, HOWEVER.

AS YOU KNOW, CITIES USE THEIR CDBG FUNDS FOR A VARIETY OF PURPOSES, INCLUDING ECONOMIC DEVELOPMENT, HOUSING ASSISTANCE,

SOCIAL SERVICES AND PUBLIC WORKS OR INFRASTRUCTURE IMPROVEMENTS. OFFICIALS IN 45 OF THE SURVEY CITIES REPORTED THAT CUTS WOULD BE MADE ACROSS THE BOARD IN ALL AREAS FOR WHICH CDBG FUNDS ARE USED. HOUSING ASSISTANCE WOULD BE CUT IN OVER TWO-THIRDS OF THE CITIES RESPONDING, PUBLIC WORKS OR INFRASTRUCTURE IMPROVEMENTS WOULD BE NEXT, WITH OVER HALF THE CITIES MAKING CUTS THERE. THESE WERE FOLLOWED BY CUTS IN ECONOMIC DEVELOPMENT (IN 49 PERCENT OF THE CITIES) AND SOCIAL SERVICES (IN 44 PERCENT OF THE CITIES).

CHARLESTON RECEIVES $1.3 MILLION A YEAR THROUGH THE COMMUNITY DEVELOPMENT BLOCK GRANT. THIS AMOUNT REPRESENTS A 43 PERCENT REDUCTION OVER THE LAST FOUR YEARS, NOT ALLOWING FOR INFLATION. WE HAVE USED OUR BLOCK GRANTS FOR HOUSING REHABILITATION AND JOB CREATION IN TWO OF OUR MOST RUNDOWN AREAS. THE PROPOSED CUTS WOULD BE FELT THE MOST IN OUR HOUSING ASSISTANCE AND ECONOMIC DEVELOPMENT EFFORTS AND THE EFFECT ON OUR CITY WOULD BE VERY ADVERSE. WE HAVE NO MEANS TO RAISE SUFFICIENT FUNDS LOCALLY IF THE FEDERAL DOLLARS ARE CUT. NEIGHBORHOOD REVITALIZATION EFFORTS WOULD DETERIORATE AND BEGIN TO REGRESS.

URBAN DEVELOPMENT ACTION GRANTS

URBAN DEVELOPMENT ACTION GRANTS HAVE BEEN EXTREMELY SUCCESSFUL IN LEVERAGING PRIVATE FUNDS FOR DEVELOPMENT IN CITIES EXPERIENCING ECONOMIC DISTRESS. THE AVERAGE RATIO OF PRIVATE INVESTMENT DOLLARS TO EACH UDAG DOLLAR IS SIX TO ONE. UDAG HAS

HELPED TO COMPENSATE FOR THE UNEVENESS OF THE ECONOMIC RECOVERY AND FOR THE DIFFERENCE IN FISCAL CONDITIONS AMONG STATES AND LOCALITIES.

FOR 70 OF THE CITIES RESPONDING TO OUR SURVEY, AN ESTIMATED 102,000 JOBS AND NEARLY $4.3 BILLION IN INVESTMENT WILL BE LOST IF URBAN DEVELOPMENT ACTION GRANTS ARE ELIMINATED AS PROPOSED IN FY86. OF THE 292 UDAG PROJECTS NOW BEING PLANNED IN THESE CITIES, ONLY NINE WOULD GO FORWARD WITHOUT UDAG FUNDING. NEARLY THREE OUT OF EVERY FOUR RESPONDENTS SAID THE LOSS OF UDAG WOULD HAVE AN ADVERSE OR VERY ADVERSE EFFECT ON THEIR CITIES.

IN CHARLESTON THE ELIMINATION OF URBAN DEVELOPMENT ACTION GRANTS WOULD HAVE A VERY ADVERSE EFFECT. WE HAVE HAD SIX UDAGS FUNDED FOR $18 MILLION. THEY HAVE LEVERAGED OVER $85 MILLION IN PRIVATE INVESTMENT AND CREATED OVER 2500 PERMANENT JOBS. WE HAVE SEVERAL NEW PROJECTS IN PLANNING -- PROJECTS THAT WOULD NOT GO FORWARD WITHOUT UDAG FUNDING.

THE ADMINISTRATION'S FY86 BUDGET PROPOSALS WOULD ELIMINATE THIS POPULAR AND HIGHLY EFFECTIVE PROGRAM. THE SENATE BUDGET COMMITTEE WOULD CUT IT BY 20 PERCENT. THE CONFERENCE OF MAYORS SUPPORTS CONTINUATION OF THE UDAG PROGRAM AT THE CURRENT LEVEL OF $440 MILLION PER YEAR.

AT THE SAME TIME THAT WE ARE FIGHTING FOR THE LIFE OF THIS PROGRAM, WE ARE STRUGGLING WITH A PROBLEM THAT HAS DENIED UDAG FUNDING TO A NUMBER OF CITIES OVER THE LAST 18 MONTHS BECAUSE OF THE PROGRAM'S HIGHLY TARGETED SELECTION CRITERIA. THE CONFERENCE OF MAYORS, ALONG WITH THE NATIONAL LEAGUE OF CITIES, NATIONAL ASSOCIATION OF COUNTIES, NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS, NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION AND THE COUNCIL ON URBAN ECONOMIC DEVELOPMENT, HAS AGREED UPON A COMMON SOLUTION TO THIS PROBLEM.

WE PROPOSE THAT ONE-THIRD OF THE UDAG FUNDS BE SET ASIDE FOR AWARDS BASED ON QUALITY OF THE PROJECT IN ACCORDANCE WITH EXISTING CRITERIA, AND TWO-THIRDS BE ALLOCATED UNDER THE CURRENT SYSTEM BASED ON DISTRESS, IMPACTION AND QUALITY OF THE PROJECT.

THIS POSITION REPRESENTS SIGNIFICANT COMPROMISE BY THE MEMBERS OF THE CONFERENCE. IT WAS AGREED TO BECAUSE MAYORS RECOGNIZE THE IMPORTANCE OF THE PROGRAM AND WANT TO ASSURE THAT IT IS PRESERVED. IT IS IMPORTANT TO NOTE THAT IT ALSO REPRESENTS COMPROMISE WITHIN AND AMONG THE SIX ORGANIZATIONS MENTIONED ABOVE. AGAIN, IT WAS AGREED TO BECAUSE WE ALL RECOGNIZE THE IMPORTANCE OF THE PROGRAM AND WANT TO ASSURE IT IS PRESERVED. I URGE THIS SUBCOMMITTEE TO GIVE SERIOUS CONSIDERATION TO THIS PROPOSAL TO RESOLVE THE UDAG ALLOCATION PROBLEM AND TO ACT QUICKLY. THE FUTURE OF THE PROGRAM MAY DEPEND ON IT.

TRANSPORTATION

WE URGE THAT YOU SUPPORT A LEVEL OF FUNDING FOR PUBLIC TRANSPORTATION EQUAL TO THE FISCAL YEAR 1985 APPROPRIATION LEVEL -- FUNDING WHICH IS SIGNIFICANTLY BELOW THE LEVEL CONTAINED WITHIN THE SURFACE TRANSPORTATION ASSISTANCE ACT OF 1982 (STAA).

THE STAA (CONCEIVED BY FORMER SECRETARY OF TRANSPORTATION DREW LEWIS AND SIGNED BY THE PRESIDENT) WAS AN ACT OF BIPARTISANSHIP AND INTERGOVERNMENTAL PARTNERSHIP, WHICH ARTICULATED THE PROPER ROLE OF THE FEDERAL GOVERNMENT IN THE PROVISION OF PUBLIC TRANSPORTATION ASSISTANCE. WITH RESPECT TO CITIES, THE STAA: 1) SHOWED CONCERN FOR CITIES OF ALL SIZES; 2) CREATED A NEW, FAIR FORMULA FOR THE DISTRIBUTION OF MOST TRANSIT ASSISTANCE THROUGH A STREAMLINED BLOCK GRANT TYPE PROGRAM; 3) ALLOCATED THE ONE CENT GAS TAX FOR DISCRETIONARY PURPOSES; AND 4) PROVIDED REDUCED AND LIMITED -- BUT VERY NECESSARY -- FUNDING FOR OPERATING ASSISTANCE, VITAL TO SUSTAINING TRANSIT SYSTEMS PARTICULARLY IN MEDIUM AND SMALLER SIZED CITIES.

THE CORE ELEMENTS OF THE STAA WERE THE PRODUCT OF YEARS OF HARD WORK. IT CANNOT BE THRUST ASIDE AS THE ADMINISTRATION'S PROPOSED FY86 BUDGET WOULD DO.

IN RECENT YEARS, CITIES HAVE RAISED TAXES, INCREASED FARES, REDUCED SERVICE AND INSTITUTED NUMEROUS PRODUCTIVITY MEASURES TO SUSTAIN OUR TRANSIT SYSTEMS. IT HAS NOT BEEN EASY. IT HAS BEEN NECESSARY. WE WILL DO MORE OF IT BECAUSE IT IS THE RIGHT THING TO DO AND WE MUST. BUT THIS HAS BEEN DONE BASED ON A PARTNERSHIP BETWEEN ALL LEVELS OF GOVERNMENT. FEW MAYORS EXPECT THE FEDERAL PORTION OF THE TRANSIT BUDGET TO GROW. BUT WE DO EXPECT AND REQUIRE THAT IT NOT SHRINK AND WITHER. IF IT DID, THE RESULTS WOULD BE VERY TROUBLESOME. A TWO-THIRDS REDUCTION IN THE AMOUNT OF FEDERAL CAPITAL ASSISTANCE, AND A TOTAL ELIMINATION OF OPERATING ASSISTANCE, WHEN COUPLED WITH OTHER PROPOSED CUTS, SUCH AS GENERAL REVENUE SHARING, WOULD CAUSE A GREAT STRAIN IN MOST CITIES.

OUR SURVEY SHOWED THAT IF THE ADMINISTRATION'S PROPOSED FY86 BUDGET FOR PUBLIC TRANSPORTATION WAS APPROVED:

- 83 PERCENT OF THE CITIES RESPONDING WOULD RAISE FARES, WITH ALMOST 40 PERCENT OF THOSE WHO CAN NOW PREDICT THE MAGNITUDE OF THE INCREASE INDICATING IT WILL BE GREATER THAN 50 PERCENT.
- 75 PERCENT OF THE CITIES RESPONDING WOULD SUBSTANTIALLY REDUCE THE NUMBER OF TRANSIT VEHICLES IN SERVICE;
- 70 PERCENT OF CITIES RESPONDING WOULD ELIMINATE SPECIFIC ROUTES;

- 69 PERCENT WOULD BE REQUIRED TO REDUCE OVERALL SERVICE, WITH MORE THAN 45 PERCENT OF THOSE WHO CAN NOW PREDICT THE RANGE OF CUTBACKS INDICATING SERVICE REDUCTIONS OF MORE THAN 25 PERCENT;
- 39 PERCENT WOULD BE THREATENED WITH A SYSTEM SHUTDOWN.

IN CHARLESTON, IF THE ADMINISTRATION'S BUDGET PROPOSALS WERE ADOPTED, FARES WOULD DOUBLE AND THERE WOULD BE A REDUCTION IN THE NUMBER OF TRANSIT VEHICLES AND IN THE NUMBER OF ROUTES. TRANSIT SERVICE WOULD BE REDUCED BY ONE-FOURTH IN OUR REGION AND BY THREE-FOURTHS IN OUR DOWNTOWN AREA. WHILE OUR SYSTEM WOULD NOT BE THREATENED WITH A SHUTDOWN, IT IS POSSIBLE THAT DOWNTOWN SERVICE WOULD BE TERMINATED.

IF THE ADMINISTRATION'S FY86 BUDGET PROPOSAL WERE APPROVED, TRANSIT WOULD CHANGE DRAMATICALLY IN CITIES ACROSS THE NATION. SOME PEOPLE WOULD BE FORCED BACK INTO THEIR CARS. OTHERS INTO THE STREETS. THOSE WITH TRANSPORTATION OPTIONS WOULD EXERCISE THOSE OPTIONS, WITH CONGESTION INCREASES AND AIR QUALITY DETERIORATION, THE WHOLE COMMUNITY WOULD BE THE WORSE. THOSE WITHOUT TRANSPORTATION OPTIONS WOULD SIMPLY SUFFER. THEIR LOSS OF MOBILITY IS UNACCEPTABLE.

AT THE LOCAL LEVEL, TRANSPORTATION IS OUR BUSINESS AND WE WILL TAKE THE BASIC RESPONSIBILITY FOR PAYING FOR IT AND MAKING IT WORK. A CORE AMOUNT OF FEDERAL ASSISTANCE, PARTICULARLY IN THE TRANSIT AREA IS NECESSARY AND DESIRABLE. IT HELPS TO ESTABLISH AND IMPLEMENT NATIONAL GOALS IN THE AREAS OF MOBILITY, ENERGY EFFICIENCY, ENVIRONMENTAL QUALITY, ELDERLY AND HANDICAPPED POLICY AND MANY OTHERS.

WE WILL TAKE THE LEAD IN WORKING WITHIN OUR OWN COMMUNITIES FOR GREATER EFFICIENCIES, GREATER PRODUCTIVITY, GREATER PRIVATE SECTOR PARTICIPATION. BUT THE BASIC PARTNERSHIP WHICH NOW EXISTS MUST CONTINUE.

THE SENATE BUDGET COMMITTEE HAS PROPOSED A 25 PERCENT REDUCTION IN TRANSIT RATHER THAN THE ADMINISTRATION'S 66 PERCENT REDUCTION. WHILE THE CONFERENCE IS PLEASED THAT MOST OF THE ADMINISTRATION'S PROPOSAL WAS REJECTED, A 25 PERCENT CUT IS NOT GOOD NEWS.

IN CONCLUSION LET ME REITERATE THE POSITION OF THE CONFERENCE OF MAYORS: WE OPPOSE THE BUDGET REDUCTIONS CONTAINED IN THE ADMINISTRATION'S FY86 BUDGET. WHILE WE APPRECIATE THE SENATE BUDGET COMMITTEE'S REJECTION OF MANY OF THE ADMINISTRATION'S PROPOSED CUTS, WE OPPOSE THE REDUCTIONS THE COMMITTEE HAS PROPOSED FOR CDBG, UDAG, PUBLIC TRANSIT AND OTHER IMPORTANT PROGRAMS.

THE CONFERENCE SUPPORTS, INSTEAD, A FREEZE ON ALL NON-MEANS TESTED PROGRAMS IN THE FEDERAL BUDGET. AND WE SUPPORT INCREASED REVENUES FROM MEASURES OTHER THAN THE PERSONAL INCOME TAX. WE SEE THIS AS THE FAIR APPROACH TO SOLVING THE DEFICIT PROBLEM. WE ASK YOUR SUPPORT AND HELP IN ACHIEVING A FAIR FEDERAL BUDGET.

Housing Needs and Conditions in America's Cities

A Survey of the Nation's Principal Cities

June 1984

UNITED STATES
CONFERENCE OF MAYORS

SUMMARY OF FINDINGS

The overwhelming conclusion of the U.S. Conference of Mayors Survey on Housing Needs and Conditions is that the demand for housing assistance among lower income households is increasing, and that the resources available to meet this rising demand are inadequate.

A total of 77 percent of the respondents to the survey said that demand had increased over the last year. No respondents reported any decline whatsoever. The cities surveyed reported an average wait for housing assistance of 20 months for all types of assistance on which they reported, with the wait for Section 8 Existing Housing Certificates for families topping the list at 25 months' average wait. Moreover, these averages mask a range of waiting list lengths which is staggering. For instance, the longest wait recorded in the responses was 302 months, for family Section 8 certificates, while a waiting list of "0" months was recorded at least once for each particular type of housing for which information was sought.

The cities surveyed by the Conference of Mayors are a diverse sample of American cities. A total of 66 cities were included in the survey tabulations, with a total population of 26 million persons. The largest city included in the survey is Los Angeles, population of 2.97 million, and the smallest was Burlington, Vermont, population of 37,712. The average population of the cities covered in the survey is 394,000, and the median population 250,000.

The survey also shows a good distribution geographically around the country. The Northeast accounts for 23 percent of the total cities included; the South accounts for 21 percent; the North Central region accounts for 21 percent; the Southwest for 26 percent; and the Northwest for 9 percent of the total.

In addition, the surveyed cities have broad experience in the various assisted housing programs. All together, the surveyed cities reported that they contain 428,050 units of assisted housing of various kinds, ranging from a high of 36,320 units to a low of 235. The average number of assisted units in the survey is 6,485, while the median is 3,794.

Other major findings from the survey include the following:

- Demand for assisted housing is so out of scale with available housing resources that 61 percent of the cities surveyed have closed their waiting lists to households seeking assistance.

- Even when assistance is available, many recipients cannot use it because the housing market is so tight. For instance, 55 percent of the respondents reported that 25 percent or more of their Section 8 Existing Housing Certificates are eventually cancelled because recipients cannot find suitable units at acceptable rents.

- The resources already in place in American cities are under severe stress, with the demand for rehabilitation and modernization funding

far outstripping the funds available. The surveyed cities were asked to estimate their need for modernization funding in existing public housing. The total need came to $1.7 billion. However, the same cities estimated that they expect to receive only $218 million of this total--or 12 percent--in current modernization plans.

- Cities perceive the most critical roadblocks to adequate housing for lower income people to be a lack of income, and inadequate or substandard dwelling units. Only a small minority of respondents believes either of these problems has improved over the last two years, and a large majority believes the problem of low income has gotten worse.

- When asked if the private sector could meet local needs absent housing subsidies, 89 percent said "no."

- Cities themselves are contributing funds for housing assistance through a variety of means, including Community Development Block Grants (CDBG) and direct contributions to public housing authorities. However, shrinking resources at the local level have meant cutbacks in some of these areas in the last two years.

FOREWORD

Since its founding in 1932, the U.S. Conference of Mayors has been a major force in the assisted housing field. Over this period, impressive progress has been made. Americans are better housed than ever before. Great strides have been made in eliminating dangerous housing conditions in many areas. The overall condition of American housing has improved tremendously since the federal involvement in this area began in 1934.

Yet despite this progress, housing remains one of the most pressing social issues confronting American Mayors today. Although over 60 percent of the American people currently own their own homes, millions of Americans can no longer even dream of buying a house. Although housing costs for millions of households have declined over the years, for many millions of other families, rent burdens are reaching intolerable proportions. During the decade of the 1970's, the median value of a home rose by 175 percent, and rents rose by 125 percent. In contrast, household income over the same period rose only 98 percent.

For lower income tenants, the situation has become particularly grim. During the 1970's the total number of units available to those earning $3,000 or less per year at 30 percent of income dropped by 75 percent, to a total of less than 1.5 million. The total number of households in this category declined by only 50 percent to a total of 2.9 million, leaving a shortfall in this income group alone of 1.4 million units.

Since 1978, the number of households living in poverty has increased by 32 percent, with 1 in 7 Americans--or 34.4 million persons--now living below the poverty line. Many of these households have been priced completely out of the private housing market.

In fact, 16 years after the adoption of national housing goals, the words of the 1968 Housing Goals and Annual Report still ring eerily true in urban America:

> "The policies designed to contribute to the achievement of the national housing goal (realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family) have not directed sufficient attention and resources to the preservation of existing housing and neighborhoods; that the deterioration and abandonment of housing for the nation's lower income families has accelerated over the last decade, and that this acceleration has contributed to neighborhood disintegration and has partially negated the progress toward achieving the national housing goal which has been made primarily through new construction."

Despite rising levels of poverty and homelessness, and the accelerated loss of low-income housing stock, budget cuts enacted by Congress since FY81 have reduced federal low income housing resources by almost 60 percent, the largest

percentage reduction of any discretionary program category in the budget. The FY85 budget proposals from the Administration would have cut appropriations for housing assistance programs by an additional 38 percent from FY84 levels.

Since 1934, when the Federal Housing Administration (FHA) was established, the country's track record in making housing affordable to millions of middle-class families has been unparalleled. But the fact that the President's 1981 Housing Commission could report that 7 million lower income households are paying more than 30 percent of their income for shelter and not receiving any federal housing assistance is vivid testimony to the unmet needs of lower income persons.

This survey provides information from cities all over the country on low income housing need and the resources available to meet it. The U.S. Conference of Mayors is committed to working with the Administration and the Congress to develop policies that will achieve the national housing goals. We hope that this report will contribute to this end.

This report was prepared by the staff of the Conference of Mayors, which is solely responsible for its content. The survey was designed, distributed and tabulated with the invaluable assistance of Modesto Abety, a National Urban Fellow carrying out his practicum at the Conference of Mayors during the Spring of 1984, and Rodney Hambrick, Conference of Mayors staff. The principal author of the report was Barry Zigas, Assistant Executive Director of the Conference of Mayors.

John J. Gunther
Executive Director
U.S. Conference of Mayors
June, 1984

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METHODOLOGY

The U.S. Conference of Mayors sent the Survey of Housing Needs and Conditions questionnaire to a representative cross-section of cities with populations of 30,000 or more in late April, 1984.

The survey was sent directly to the Mayor of each city along with a letter from the Conference of Mayors Executive Director. To increase the response rate from the mailing, various steps were taken. First, a memorandum was sent to all members of the National Community Development Association (NCDA) in cities included in the survey notifiying them in early May that the survey had been sent to the Mayor and urging assistance in securing a response. During mid-May, contact was made with the Washington representatives of cities included in the survey for the same purpose. Finally, some additional cities were contacted directly by telephone by the Conference of Mayors and urged to complete the survey promptly.

A final draft of the survey was field tested by a number of housing and community development officials prior to its mailing to the Mayors. Recommendations received through this process were incorporated into the survey instrument, which was designed to facilitate response by the use of graphs and scales.

By May 30, completed surveys had been completed by 66 cities. A list of these cities is included as Appendix 1. The regional and population distribution of these cities is displayed in Tables 1 and 2 below.
A map showing which states comprise each of the five regions used in the report is attached as Appendix 2 to this report.

Additional surveys have been received since May 30, but these are not included in the tabulations presented here. They can be included in further analysis of the data.

The completed questionnaires were answered by housing, community development and/or planning officials knowledgeable about their cities and the subject of the survey. Because the survey sought information about public housing and Section 8 programs, the use of Community Development Block Grant (CDBG) funds, as well as overall housing conditions, needs and fair housing policies, the responses in many cities represent a collaboration among various agencies and individuals.

The survey's questions sought factual information. In some instances subjective judgments were called for based on the respondent's awareness of factual data. A copy of the questionnaire is included as Appendix 3 to this report.

The information presented here addresses the housing needs and conditions of cities that responded to the survey. Although we believe the results reflect a representative sample of American cities, the conclusions presented here cannot necessarily be extrapolated to cities not surveyed or included in these results. While we believe the conclusions are indicative of housing needs and

conditions in America's principal cities, the conclusions must be tempered by an understanding of the survey's limitations.

TABLE 1

RESPONDENTS BY POPULATION CATEGORIES

	Number/	Percent of total responses*
30,000-49,999:	4	6%
50,000-99,999:	5	8%
100,000-499,999:	42	64%
Over 500,000:	15	23%
Average population of respondents:		394,070

TABLE 2

RESPONDENTS BY REGION

	Number/	Percent of total responses
Northeast	15	23%
North Central	14	21%
South	14	21%
Southwest	17	26%
Northwest	6	9%

*Does not add to 100 due to rounding.

HOUSING NEEDS

A major finding of the Survey on Housing Needs and Conditions is that demand for assisted housing of all kinds has increased over the last year, in some cases dramatically.

All surveyed cities were asked whether, during calendar 1983, the demand for assisted housing for low income families had "increased," "decreased,", or "remained the same." A total of 51 cities--77 percent of those responding--said that it had increased. Another 13 cities, or 20 percent, said that it had remained the same. No respondents stated that it had decreased, although two failed to answer the question.

In response to a question regarding the extent of change in demand over the last year, 69 percent of those who identified an increase estimated it to range between 25 and 100 percent, with 23 percent estimating the increase in the 50 percent and up range.

The stark reality of this unmet demand is illustrated in the waiting lists local communities are maintaining at the present time for all types of assisted housing. Among all the respondents to the survey, the average time between application for assistance by a low or moderate income household and the actual delivery of the assistance was 20 months. Among all the respondents to the survey, a total of 227,777 households were on waiting lists at the time of the survey, with an average among all surveyed cities of 3,451.

Because of the range of housing assistance available at the local level, respondents were asked to provide the length of time applicants wait for a variety of housing assistance. The average waits as reported by the respondents are displayed in Table 3 below.

While these average waits are sobering enough, they mask a range of waiting list lengths which is truly staggering. For instance, while at least one community reported no wait at all in each of the categories for which information was sought, the waiting lists also ranged as high as 302 months--or almost 30 years--for Section 8 Certificates for families. Table 4 shows the highest and lowest figures reported for each category of assistance on which information was requested.

Respondents were also asked to estimate what percentage of the households on their waiting lists currently lived in substandard housing, or paid more than 50 percent of their income for rent. A total of 73 percent of the respondents said that 50 percent or more of the households on their waiting lists fit either or both categories. In other words, the families awaiting assistance include a high percentage of those who by all counts are suffering the greatest need for housing assistance.

Not surprisingly, these figures prove daunting not only at the national, policy making level, but also provide a powerful discouragement to new appli-

TABLE 3

WAITING LISTS FOR ASSISTED HOUSING
(Average waits reported by respondents)

PROGRAM	TYPE OF HOUSEHOLD: Family (upto 2 bdrms)	Large Family (3 or more bdrms)	Elderly	Handi-capped
Public Housing	18 mos.	23 mos.	16 mos.	8 mos.
Section 8 Certificate	25 mos.	24 mos.	16 mos.	10 mos.

TABLE 4

WAITING LISTS FOR ASSISTED HOUSING
(Range of waits reported by respondents; highest/lowest in months)

PROGRAM	TYPE OF HOUSEHOLD: Family (upto 2 bdrms)	Large Family (3 or more bdrms)	Elderly	Handi-capped
Public Housing	126/0	124/0	301/0	60/0
Section 8 Certificate	302/0	97/0	255/0	60/0

cants at the local level, thereby masking a significant reservoir of unmet need. This is vividly illustrated by the finding that 55 percent of the respondents said they believed that families in their own jurisdictions were discouraged from applying for assisted housing. Moreover, 61 percent of the cities have actually closed their waiting lists and stopped accepting any new applications at all.

The evident discouragement of lower income housing applicants is apparently well-founded. In 29 percent of the responding cities, 50 percent or more of the Section 8 certificates allocated require at least one extension of the original 60 days provided in order to find a suitable and affordable unit.

Indeed, 55 percent of the respondents said that 25 percent or more of the certificates they issued were eventually cancelled altogether because recipients cannot find units suitable for the program. A total of 24 percent of the respondents said that their cancellation rate reached 50 percent or more of the certificates issued, and 6 percent ranked the cancellation rate at 75 percent or more of those issued.

> **NB: Under the Section 8 Existing Housing program, local public housing agencies issue certificates to eligible households. These recipients then have 60 days--which can be extended--to find a housing unit suiting their family characteristics and carrying rents within HUD's "Fair Market Rent" guidelines. Tenants pay 30 percent of their income for rent, and the Section 8 subsidy makes up the difference between this amount and the approved rent on the unit. Commitments to eligible tenants are cancelled when the recipients are unable to find suitable units within the allotted time period. These certificates are usually then issued to another household and the process begins again until a unit is placed under subsidy.**

Another relevant finding is that actual admission to public housing is no guarantee of security. A total of 68 percent of the respondents reported that evictions in public housing have increased over the last two years.

DECLINING SUPPLY

Despite the rising and critical demand for assisted housing among these cities, 57 percent of the respondents said that the supply of housing available to low and moderate income households had decreased or remained the same over the last 5 years. Many of those who said the supply had increased cited significant federal investments in new construction and substantial rehabilitation through programs which have been practically eliminated over the last three years.

Moreover, even 40 years after federal assistance in low income housing began, only 12 percent of the respondents--8 cities--estimated that one-half or more of the eligible households in their cities are receiving assistance at this time.

The most frequently cited reason for a decreasing supply of housing was **decreased construction** , with increased demand from higher income renters cited second most frequently. Table 5 below shows the responses from surveyed cities to the question, "if the low-income rental housing stock has been decreasing, please rank from 1-5 the major causes of this loss, with 1 being the major cause."

TABLE 5

CAUSES OF DECLINING STOCK FOR LOWER INCOME RENTERS
(Ranked in descending order of importance)

	1	2	3	4	5	Not Ranked
Decreased Construction	13	15	1	2	2	33
Increased Demand From Higher Income Renters	10	8	7	8	1	32
Other	9	2	2	1	3	49
Demolition	4	6	9	7	2	38
Conversion	0	1	10	9	8	38

These findings suggest that the combination of decreased rental housing construction--particularly the severe cutbacks in federally assisted new construction and substantial rehabilitation--coupled with increased competition from higher income renters is squeezing the lower income renter out of the urban housing market.

Moreover, when asked if the private sector could meet rental housing needs absent any subsidized production programs, 89 percent of the respondents said "no".

Barriers facing lower income households

Respondents were asked to rank the importance of 5 barriers to safe, decent, and sanitary housing in their cities. The results of this question are displayed in Table 6 below.

TABLE 6

BARRIERS TO DECENT HOUSING AMONG RESPONDENTS
(Ranked in descending order of importance)

	1	2	3	4	5	6	Not Chosen
Low Income	39	16	7	3	1	0	0
Inadequate/Substandard	11	21	17	12	4	1	0
Housing Shortages	11	14	18	10	5	4	4
Overcrowding	3	7	17	17	10	6	6
Other	2	7	2	2	2	5	46
Discrimination	1	2	2	16	35	3	7

As Table 6 shows, "low income" was clearly the single most important barrier chosen by the respondents, with 83 percent of them choosing it as either the first or second most important factor. Moreover, 65 percent of the respondents stated that this problem has gotten worse over the last two years, while another 29 percent said it had remained the same over that period.

The second most frequently cited barrier for lower income people was "inadequate or substandard dwellings", which 48 percent of the respondents chose as either the first or second most important barrier. "Housing shortages" was listed third most frequently, with 38 percent of the respondents choosing it as the first or second most important factor.

A total of 68 percent of the respondents felt that the problems of inadequate or substandard housing had gotten worse or remained the same over the last two years, while 73 percent of them felt this way about housing shortages. The full results of this question are displayed in Table 7 below.

TABLE 7

TRENDS IN BARRIERS TO DECENT HOUSING (Frequencies of responses)			
Problems:	Improved	Gotten Worse	Remained the same
Low Income	4	43	19
Housing Shortages	17	27	21
Overcrowding	11	25	29
Inadequate or substandard housing	21	22	23
Discrimination/ segregation	25	7	29
Other:( )	1	5	2

The importance of preserving existing housing stock

Substandard housing is still a major problem in the surveyed cities. Not only was it identified as one of the major barriers to lower income housing opportunities, but the surveyed cities were also asked to identify the number of vacant and abandoned units in their jurisdictions. While the average number of vacancies throughout the responding cities was 3,873, the range was vast--from a high of 53,687 to a low of 10.

Moreover, 57 percent of the respondents said that 50 percent or more of these units could be rehabilitated, and another 18 percent said that between 25 percent and 50 percent of them could be rehabilitated.

Not surprisingly, the cities also identified rehabilitation of existing units as the single most effective way to combat substandard housing, with fully 74 percent of the respondents picking this as the first or second most effective technique. Code enforcement, a related tactic, was the first or second choice of 45 percent of the respondents to this question. A full display of these results can be found in Table 8 below.

TABLE 8

PUBLIC ACTIONS MOST EFFECTIVE IN ELIMINATING SUBSTANDARD HOUSING
(Ranked in descending order of importance)

	1	2	3	4	5	Not Chosen
Rehabilitation	29	20	11	2	1	3
Code Enforcement	16	14	14	14	4	4
Assistance to families in existing housing	10	13	23	10	8	2
Production of new housing	8	10	12	20	9	7
Demolition	5	5	4	11	36	5

This interest in and need for rehabilitation is most dramatically brought home in the existing public housing stock. A total of 208,710 units of public housing were included in the respondent cities, according to figures provided by the cities. This ranged from a high of 23,546 in one city to a low of 99 in another. The average number of public housing units per city was 3,162, and the median 1,670 units. Cities were asked to estimate the total dollars needed to bring existing public housing units up to "standards" through the modernization program operated by HUD. Among all the respondents, the stated demand totals $1.7 billion, with an average need of $26 million per city. However, the surveyed cities estimated that they would receive a total of only $218 million to meet these needs, or 12 percent of the stated requirement. Expected funding averaged only about $3.3 million per city. Table 9 below summarizes these findings.

TABLE 9

ESTIMATED NEED AND ANTICIPATED FUNDING FOR PUBLIC HOUSING MODERNIZATION
(Estimates provided by surveyed cities; $'s in millions)

	Funds Needed	Funds Expected
Total among all cities in sample	$1,706.49	$217.79
Average needs in sample	$25.85	$3.29

Once again, these figures illustrate dramatically the impact of federal funding on the condition and affordability of low income housing. Based on these survey findings, there is a tremendous shortfall between need and available resources, particularly from the federal side.

HOUSING DISCRIMINATION

Although it was most frequently the fourth or fifth choice of respondents as a barrier to housing availability, discrimination still looms as a major impediment to decent housing in many cities. Among the respondents, 67 percent reported that they maintain a fair housing office to handle complaints about housing discrimination. Half of the respondents reported that the nature of housing discrimination complaints has not changed significantly in the last two years, while a substantial proportion--26 percent--failed to answer this question. In addition, 52 percent of the respondents said that complaints have not increased in the last two years. In contrast, 33 percent said that they had.

More importantly, the surveyed cities reported that discrimation against minorities and against female-headed households with children remains a serious problem in many localities. Of the 51 cities who reported that demand for housing assistance had increased over the last year, 37 percent said that housing opportunities for minorities were either "difficult" or "very difficult", while 73 percent of the same group said that female-headed households with minor children found it "difficult" or "very difficult" to acquire decent housing. (Among the repondents as a whole, 40 percent said minorities had a "difficult" or "very difficult" time, and 70 percent said the same for female-headed households with minor children.)

Still, 55 percent of the total respondents indicated that the situation for minorities has gotten better in the last five years, and an additional 17 percent said it had stayed the same.

CITY RESPONSES TO HOUSING NEED

Despite federal cutbacks, cities surveyed are themselves devoting resources to provide assisted housing to needy households. For example, 74 percent of the respondents stated that housing related activities are a "very important" part of their Community Development Block Grant (CDBG) program. But the funding squeeze is clearly evident--42 percent of the respondents said that contributions for housing activities had declined over the last 2 years.

A major aspect of CDBG funded housing work is through rehabilitation of existing dwellings. According to the survey, the "lump sum drawdown," through which communities are able to draw down large parts of an annual CDBG award to use in rehabilitation programs, was used heavily--by 67 percent of the respondents. Nearly a quarter of the respondents--23 percent--said that this technique was "critical" to their program's success, and another 24 percent ranked it between "important" and "critical". This finding is especially important in light of repeated Administration attempts to eliminate this provision from the CDBG statute.

In the public housing area, too, cities are contributing to upkeep and maintenance. Although only 29 percent of the respondents said that the housing authority is part of the municipal government, 41 percent said their contributions to the housing authority had increased or remained the same over the last two years.

In addition, 39 percent of the respondents said they have used tax-exempt financing to build low income housing; 33 percent said they had used it for other rental housing; and 30 percent said they have used tax exempt financing for owner-occupied housing development.

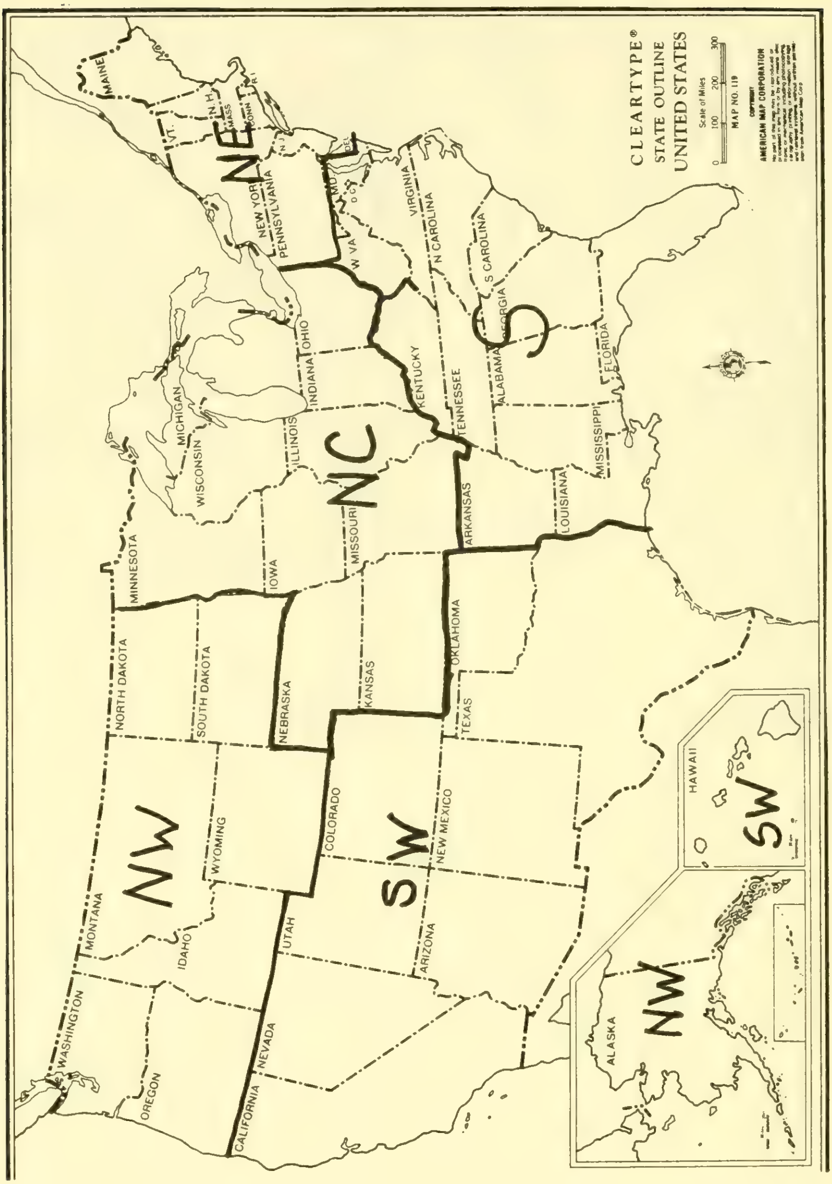
APPENDIX 1

CITIES INCLUDED IN THE SURVEY OF HOUSING NEEDS AND CONDITIONS

Albuquerque
Allentown
Anaheim
Anchorage
Ann Arbor
Atlanta
Billings
Birmingham
Buffalo
Burlington, VT
Cheyenne
Cincinnati
Clearwater
Cleveland
Columbus, OH
Corpus Christi
Dallas
Des Moines
Detroit
Elizabeth
Erie
Flint
Fort Worth
Fresno
Garland, TX
Gulfport
Hartford
Honolulu
Indianapolis
Jacksonville
Kansas City, MO
Knoxville
Lincoln
Los Angeles
Louisville
Madison
Miami
Milwaukee
New Bedford
New Orleans
Norfolk
Oakland
Oklahoma City
Omaha
Philadelphia
Phoenix
Pittsburgh, PA
Portland, OR
Providence
Richmond
Rochester
Rockford
Salt Lake City
San Diego
San Jose
Santa Barbara
Savannah
Seattle
Syracuse
Tacoma
Tucson
Washington, D.C.
Waterbury, CT
Wilmington, DE
Winston-Salem
York

APPENDIX 2

MAP SHOWING STATES COMPRISING REGIONS IN REPORT



APPENDIX 3

SURVEY OF HOUSING NEEDS

SURVEY QUESTIONNAIRE

A. DEMAND/SUPPLY OF RENTAL HOUSING

1A) During calendar 1983, did the demand for assisted housing for low income families in your area:

_______Increase_______Decrease_______Remain the Same.

B) If it increased, please rank on the following scale the percent of that increase:

1% ---------- 25% ---------- 50% ---------- 75% ---------- 100%

Comments:____

2) What is the average wait required in your area from the time of application for assisted housing, until an applicant actually receives assistance: **(PLEASE ALSO INDICATE IN MONTHS/YEARS FOR EACH PROGRAM AND HOUSEHOLD.)**
Average Wait: Years_______ Months_______

PROGRAM	TYPE OF HOUSEHOLD: Family (upto 2 bdrms)	Large Family (3 or more bdrms)	Elderly	Handi-capped
Public Housing				
Section 8 Certificate				

Comments:____

3) How many households are presently on waiting lists for assisted housing in your area?:___________________________

4A) Do you believe eligible low-income households in your area have been discouuraged from applying for assisted housing due to the length(s) of your waiting list(s): Yes_____No_____.

B) If yes, what evidence do you have?______________________

5) Please estimate the percentage of the eligible low-income households in your area currently being served by assisted housing:

1% ---------- 25% ---------- 50% ---------- 75% ---------- 100%

Comments:____

6A) Have you stopped accepting applications for any assisted housing programs due to the excessive length(s) of your waiting list(s) in the last two years?: Yes_____No_____.

B) If yes, please comment:___________________________________

C) Do you routinely purge your waiting list?
Yes_______ No_______, Comment:__________________________

7) Please estimate the percentage of households on waiting lists for assisted housing that are either paying over 50% of their income for rent, or currently living in substandard housing:

1% ____ 25% ____ 50% ____ 75% ____ 100%

Comments:

8A) Over the last five years, has the (safe, decent, affordable) rental housing stock available to low- moderate-income households in your area:

______Increased______Decreased______Remained stable

Comment:

B) Please indicate the extent of this change with 1 indicating a great decrease and 10 meaning a great increase, and 5 "about the same."

1 (Great decrease) ____ 3 ____ 5 (About the same) ____ 7 ____ 10 (Great increase)

C) If the low-income rental housing stock has been decreasing, please rank from 1-5 the major causes of this loss, with 1 being the major cause.

_____Conversion to other use (condo, etc.)
_____Demolition or condemnation due to development.
_____Increased demand from higher income renters
_____Decreased construction.
_____Other

Comments:

9A) In the absence of subsidized production programs do you believe that private construction will be able to meet rental housing needs in your area?_____yes_____no.

B) To what extent will the private sector be able to meet demand.

1 (Not at all) ____ 3 ____ 5 (Meet half the demand) ____ 7 ____ 10 (Easily meet demand)

Please Explain:

10) What is the rental housing vacancy rate in your city?___

Comments:

11A) Estimate the number of vacant and abandoned units in your area:__________.

B) What percentage of these are rehabable?

1% ____ 25% ____ 50% ____ 75% ____ 100%

Comments:

12A) What percent of the total number of Section 8 Existing Housing Certificates issued in 1983 necessitated an extension to locate a suitable unit?:

1% ____ 25% ____ 50% ____ 75% ____ 100%

Comments:____
____
____

B) What percent of the Section 8 Existing Housing Certificates issued in 1983 were cancelled due to the families' inability to locate a suitable unit within the prescribed time:

1% 25% 50% 75% 100%

Comments:____
____
____

B. <u>HOUSING CONDITIONS</u>

13A) Would you please rank the following barriers to safe, decent, sanitary housing, in order of their importance in your community with "1" representing the most serious problem and "6" representing the least important
_____Low income.
_____Housing shortages.
_____Overcrowding.
_____Inadequate or substandard dwellings.
_____Discrimination/segregation.
_____Other:____________________________________

Comments:____
____
____

B) For each of the following conditions affecting housing choices, please indicate (x) if the situation has improved, gotten worse, or remained the same over the last two years in your area:

Problems:	Improved	Gotten Worse	Remained the same
Low Income			
Housing Shortages			
Overcrowding			
Inadequate or substandard housing			
Discrimination/ segregation			
Other:( )			

Comments:____
____
____

14) In your area, what public actions have proven most effective in elimination of substandard housing?:
(Please rank from 1-5 with 1 being the most effective method).

_____Code enforcement.
_____Production of new housing.
_____Rehabilitation of existing housing.
_____Assistance to families to live in existing housing.
_____Demolition.

Comments:____
____
____

C. FAIR HOUSING

15A) How would you describe the opportunities for minorities in your area to find safe, decent, affordable housing:

1	3	5	7	10
(Very difficult)	(Difficult)		(Somewhat Easy)	(No problem)

B) Is this _____better or _____worse than five years ago?

Please Comment:____
____
____

16) How would you describe the difficulty experienced by female-headed households with minor children in your area in finding safe, decent, affordable housing:

1	3	5	7	10
(Very difficult)		(Difficult)	(Somewhat easy)	(No Difficulty)

Comments:____
____

17A) Does your city operate a "fair housing" office?
Yes_____No______.

B) If yes, please estimate the percentage of all Fair Housing complaints filed with local government in the last two years, which were related to:

	1%	25%	50%	75%	100%
Refusal to sell					
Refusal to rent					
Discriminatory terms and/or conditions					
Discriminatory financing					
Other					

C) Has there been any significant changes in the types of complaints filed over the last two years?_______Yes _______No.

If yes, please explain:___________________________________
____
____

18) In the last two years, has your area experienced an increase in fair housing complaints: ______Yes ______No.
If yes, please estimate the percentage of increase:

0	25%	50%	75%	100%

D. PUBLIC HOUSING/COMMUNITY DEVELOPMENT

19) Estimate the total amount of modernization funding your PHA needs to bring assisted units up to "standards": $_____________. How much do you expect to receive in FY83-84?: $_________.
Comments:____
____
____

20) Over the last two years, have evictions in publicly owned assisted-housing programs for non-payment of rent:

______Increased substantially.
______Increased somewhat.
______Remained the same.
______Decreased.

Please estimate the percent of change:

1% — 25% — 50% — 75% — 100%

Comments:____

21) Does the PHA plan the sale and/or disposition of any assisted housing?
______Yes ______No.

Comments:____

22) Have "Fair Market Rents" in your area kept up with inflation?______Yes ______No.
If not, rank on the scale below to what extent FMRs have failed to keep up:

1 — 3 — 5 — 7 — 10

(FMR keeping up with inflation) ... (FMR lagging seriously behind inflation)

Comments:____

23) On the scale below, please indicate the extent to which housing related activities are an important part of your CDBG activities:

1 — 3 — 5 — 7 — 10

(Not very important) ... (Somewhat important) ... (Very important)

Comments:____

24A) Over the last two years has the dollar amount of CDBG funding for housing activities in your area: _____Increased ___Decreased_____Remained the same?

B) Please indicate below the estimated percentage of change:

0 — 25% — 50% — 75% — 100%

Comments:____

25A) Have you used lump sum drawn down provisions to finance housing, rehabilitation in your area? ______Yes ______No.

B) Please indicate on the scale below how important this provision was to the overall success of the project:

1	3	5	7	10
(Unnecessary)	(Somewhat important)	(Important)		(Lump sum was critical)

Comments:____

26A) Is the Public Housing Authority in your community a part of the municipal government? ______Yes ______No.

Comments____

B) If yes, does local government provide the housing authority with funds for:

______General Operating ______Code Enforcement
______Modernization/ weatherization ______Security/crime prevention
______Social Services ______Other

C) Has the amount of funding provided to the Housing Authority by the municipal government over the last two years:
______Increased ______Decreased______Remained the same?

Comments:____

27) Has your local government used tax-exempt bond financing in the last two years to build:
_____Low-income rental housing.
_____Other rental housing.
_____Owner occupied housing.

Comments:____

28) What is the population of your municipality?_____________

29) Is your local government UDAG eligible? ______Yes______No.

30) Does your municipality receive CDBG funding under the:

______1st funding formula (population, poverty, and housing overcrowding)?
______2nd funding formula (growth lag, poverty, and age of housing)?

31) Please list below the number of assisted housing units in your area:

	Number of Units
Public housing	
Section 8 assisted	
Section 8 new construction	
Section 202	
Home-ownership	
TOTAL:	

The confidentiality of this information will be protected by the U.S. Conference of Mayors. The following information is necvessary to keep tractk of the survey responses, and is strictly for U.S. Conference of Mayors internal use.

Name of person filling out survey: ____________________

Title: ____________________

Address: ____________________

Phone Number: ____________________

Date completed: ____________________

General comments on the survey or its design: ____________________

THE IMPACT on AMERICA'S CITIES of the ADMINISTRATION'S FEDERAL BUDGET for FISCAL YEAR 1986

MARCH 1985

United States Conference of Mayors

INTRODUCTION

Background

The proposed federal budget for Fiscal Year 1986 was sent to Congress by the President on February 4. A detailed analysis of the budget document was published by the U.S. Conference of Mayors on February 7. That analysis indicated that the budget "proposes to eliminate or sharply reduce nearly every federal urban program of significant benefit to cities."

The Administration's budget proposal contains significant increases in defense spending on one hand, and significant decreases in domestic spending on the other. For FY86, grants to states and localities would drop by $20 billion, or 18 percent. Using FY81 as a base year, federal grants to state and local governments, after accounting for inflation, will have dropped 50 percent by FY86. For the key federal programs of direct benefit to cities, the drop from FY81 to FY86 would be 80 percent in real dollars, not accounting for inflation.

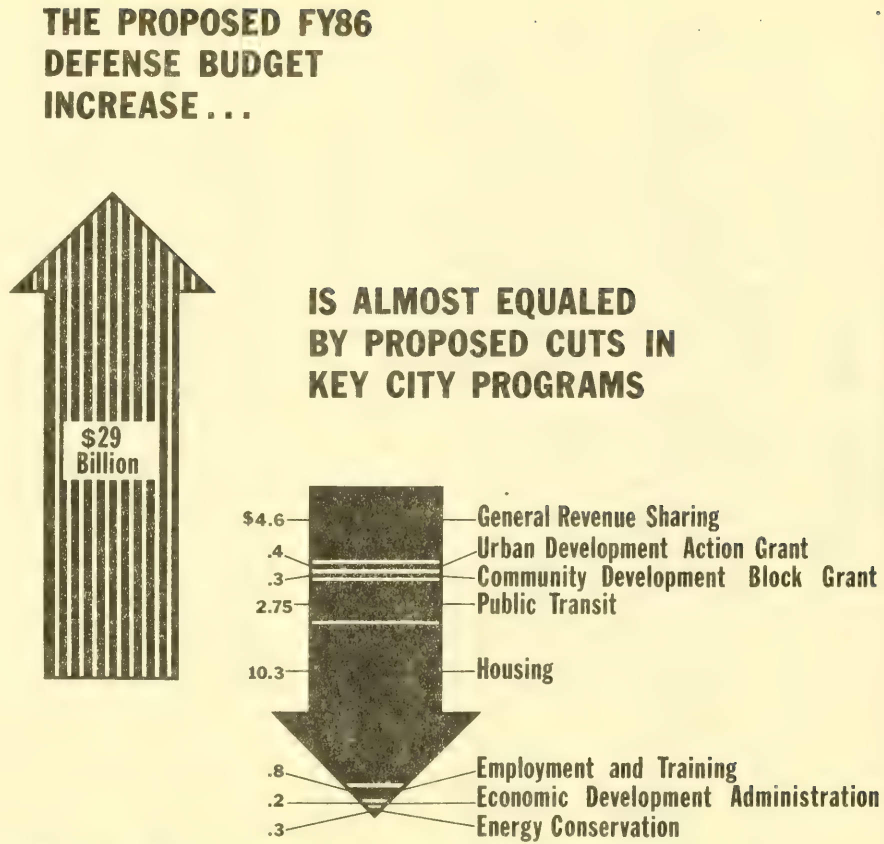
In a press conference called to release the federal budget analysis, New Orleans Mayor Ernest Morial, President of the Conference of Mayors, highlighted the proposed actions of greatest concern:

- "The General Revenue Sharing program would be eliminated in Fiscal '86. Revenue Sharing is a fundamental component of most city budgets. Its loss would trigger wide-ranging and disruptive cuts in the most basic public services, such as police and fire protection, and would force some local tax increases. The proposal to end revenue sharing next year comes as a shock to mayors who believed that the Administration would stand behind this program.

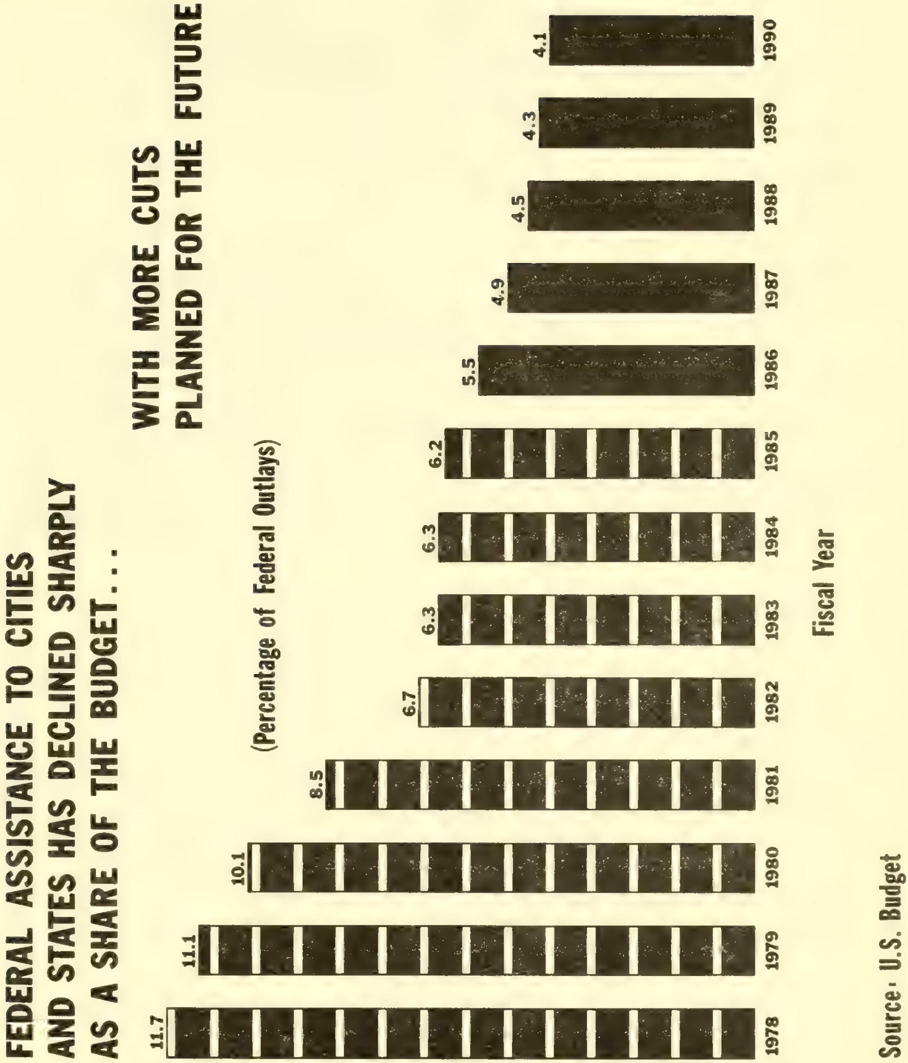
- "Community Development Block Grants would be reduced by about 23 percent for entitlement cities. This would occur as a result of cuts and modifications in the way funds are distributed to cities. These funds are considered essential by the cities which use them in so many ways to develop neighborhoods and create new opportunities for our citizens.

- "Urban Development Action Grants would be eliminated. These grants are tested, effective tools to leverage large amounts of private development money in our cities. Each UDAG dollar stimulates $6 in private investment at the local level.

- "Housing assistance funds would be cut from nearly $11 billion this year to less than a half-billion dollars next year, and there would be no new housing assistance funds of any kind for next year or the year after. Our low income and elderly citizens would be hard hit by this proposal.



Source: U.S. Budget


FEDERAL ASSISTANCE TO CITIES AND STATES HAS DECLINED SHARPLY AS A SHARE OF THE BUDGET . . .
WITH MORE CUTS PLANNED FOR THE FUTURE
(Percentage of Federal Outlays)
11.7
11.1
10.1
8.5
6.7
6.3
6.3
6.2
5.5
4.9
4.5
4.3
4.1
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
Fiscal Year
Source: U.S. Budget

- "Public transit would be cut $2.75 billion -- two thirds of the total federal effort. The public transit block grant which provides most capital and operating assistance would be completely eliminated, resulting in service cuts and some shutdowns in cities.

- "Youth and jobs programs would be cut several ways. Summer jobs for disadvantaged youth would be cut in this Fiscal Year and again in Fiscal '86. About $900 million would be cut from the Job Training Partnership Act. The Job Corps, the Work Incentive program and others would be eliminated altogether.

- "Direct loan programs would be cut in half, a credit loss of nearly $28 billion. The Small Business Administration, the Economic Development Administration and other major programs would be completely eliminated. Low rent public housing loans would drop from over $14 billion to less than $2 billion.

- "A $4 billion Medicare cut and a $1.1 billion Medicaid cut would place heavy burdens on those needing health care and on the cities responsible for Medicaid, public hospitals and other health services.

- "Despite increasing numbers of hungry and homeless citizens, and despite increasing demand for emergency human services, there would be no funds to continue the emergency food and shelter programs, and special commodity distribution programs would be discontinued as well."

The Survey

Because of the scope and the depth of the budget actions proposed by the Administration, Mayor Morial, following consultation with the organization's Executive Committee, directed the Conference of Mayors staff to assess the impact that the proposals would have on cities across the country.

On February 15 a questionnaire was mailed to a sample of more than 400 mayors of cities over 30,000 in population -- about half of all cities this size in the nation. The Conference of Mayors represents cities of 30,000 and above.

The questionnaire sought information on impact of proposed program terminations and cuts in nine areas:

- General Revenue Sharing
- Community Development Block Grants
- Urban Development Action Grants
- Public Transit
- Wastewater Treatment Construction Grants
- Assisted Housing
- Loan Programs
- Employment and Training
- Health

MOST MAJOR CITY PROGRAMS ARE ELIMINATED OR GREATLY CURTAILED BY THE PROPOSED FY86 BUDGET

General Revenue Sharing

Urban Development Action Grants

Economic Development Administration

Job Corps

Housing Rehabilitation

Low-Income Housing

$\left.\right\}$ **ELIMINATED**

Community Development Block Grant -- **10% CUT,** plus

Public Transportation -- **66% CUT**

Employment and Training -- **22% CUT**

Energy Conservation -- **88% CUT**

Source: U.S. Budget

It also sought information on:

- Ability of city governments to raise local revenues to compensate for federal budget actions;
- Likelihood that state governments would provide funds to compensate for federal cuts;
- Current surplus/deficit situation in city budgets;
- Impact of Treasury Department tax reform proposals on city projects and services.

Mayors were asked to return completed questionnaires to the Conference by February 25; data were accepted by the Conference through March 4. A total of 157 cities responded to the survey. The responses came from cities in 42 states and Puerto Rico, and from the District of Columbia.

Summary of Findings

The sections which follow in this document present the findings of the survey in each of the program, revenue and tax areas listed above. Following are highlights of these findings.

General Revenue Sharing

If General Revenue Sharing is eliminated as proposed in FY86, 97 percent of the cities responding to the survey would cut services. Capital improvements would be cut by 60 percent of the cities; public safety would be cut by 48 percent. In addition, 68 percent of the respondents predicted some type of local revenue increase to compensate for the loss of the revenue sharing funds. In 43 percent of the cities user fees would be increased; 40 percent would increase property taxes. Only five percent of the cities expect any state aid to compensate for the revenue sharing loss.

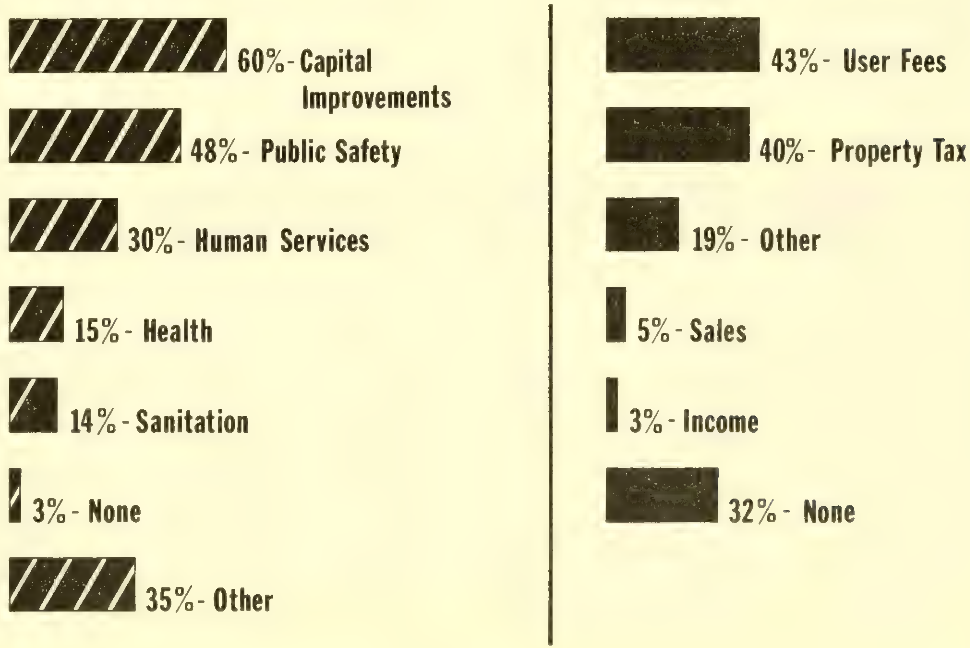
Community Development Block Grants

A 23 percent cut for Community Development Block Grant entitlement cities would result from the Administration's proposed cut of 10 percent in CDBG funds and proposed shift in entitlement cities/small cities funding ratio from 70:30 to 60:40. Almost 93 percent of the respondents said these proposals would have either an adverse effect or a very adverse effect on their cities. While over 31 percent of the cities would make across-the-board cuts in all areas for which CDBG funds are used, most cities -- more than two out of three --would cut housing programs, and about 54 percent would cut public works and infrastructure improvements.

ELIMINATION OF GENERAL REVENUE SHARING MEANS....

BIG PROGRAM CUTS and BIG TAX INCREASES

(percent of cities which would cut each program) — (percent of cities which would raise each tax)



Urban Development Action Grants

For 70 of the cities responding to the survey, an estimated 102,000 jobs and nearly $4.3 billion in investment will be lost if Urban Development Action Grants are eliminated as proposed in FY86. Of the 292 UDAG projects now being planned in these cities, only nine would go forward without UDAG funding. Nearly three out of every four respondents said the loss of UDAG would have an adverse or very adverse effect on their cities.

Public Transit

The proposed FY86 budget calls for a two-thirds reduction in transit assistance, including a total elimination of federal operating assistance and a rise in the local matching share required by the federal government. Among the cities responding to the transit question, 83 percent said that fares will increase if the federal assistance is cut. Of the cities predicting fare increases, 19 percent say that fares will at least double; another 17 percent would increase fares by more than half. In addition, three out of four cities would reduce their vehicle fleets, and 70 percent would eliminate some public transit routes. While overall transit service would decline significantly in most cities, nearly 39 percent of the respondents said that their systems would be threatened with shutdowns.

Wastewater Treatment Construction Grants

The Administration is proposing a four-year phaseout of wastewater construction grants, with a likely 25 percent reduction in each of the next four years. Almost 36 percent of the respondents said they would be unable to complete existing wastewater treatment facilities in their cities if the phaseout goes through. About half of the cities are under court order, consent decree or other binding contract to build new plants or finish existing ones in order to meet 1988 clean water standards. Sixty percent of these will not be able to meet these obligations without a significant increase in taxes or user fees.

Assisted Housing

The budget for FY86 proposes a moratorium on all new units of assisted housing. Over 88 percent of the respondents said the availability of housing affordable by low income people would be either adversely or very adversely affected by the moratorium. The proposed one-year elimination of funds for modernization would have an adverse or very adverse effect in nearly 78 percent of the responding cities. For 93 percent of the cities, waiting lists for assisted housing would lengthen because of the moratorium. On average, the waiting list for Section 8 units is more than 2 years, for Section 202 units, 18 months; for public housing units, almost two years.

IF THE PROPOSED FY86 BUDGET CUTS ARE APPROVED....

96% of planned projects based on UDAG funding will not go forward... ...with a loss of 102,000 jobs and $4.3 billion in investment

83% of cities will raise transit fares... ...with 36% of fares rising more than half

70% of cities will experience cuts in health services... ...with many to experience shifts in costs to local health departments

60% of cities would have to raise taxes to meet wastewater needs... ...with 43% rising more than 25%

More than 93% of cities will be adversely or very adversely impacted by the CDBG cut... ...with major impacts in housing, public works and economic development

Youth unemployment will rise... ...with more than 37,000 kids forced from the summer jobs programs

Loan Programs

As proposed in the FY86 budget, the elimination of Section 312 rehabilitation loans, Section 108 community development loan guarantees, the Small Business Administration's loan programs and the Economic Development Administration's loan and grant programs would adversely or very adversely affect over 83 percent of the cities responding. Section 312 loans totaling nearly $34 million and involving well over 3500 housing units were used last year by 57.5 percent of the respondents. Section 108 loan guarantees were used by 17.5 percent of the cities. EDA loans and grants totaling more than $38 million went to 44.4 percent of the cities.

Employment and Training

Over 80 percent of the respondents said the proposed elimination of the Job Corps and cuts in the summer youth employment program and dislocated worker program would have an adverse or very adverse effect on their cities. Over 37,000 young people in 77 survey cities would be removed from jobs programs this summer by the proposed recission of $100 million in summer funds. In more than four out of five of these cities, alternative services will not be available for the young people who are affected.

Health

The Administration's proposal to cut the Medicaid program, capping federal matching payments to the states, will reduce locally available health services or the number of people who receive health care in 70 percent of the cities responding; in almost all of these cities, both services and people served would be cut. The proposal to freeze health block grants and reduce funding for various other health programs would trigger an increase in sexually transmitted disease in two out of three cities responding. Childhood disease rates would be expected to increase in 64 percent of the cities, infant mortality rates in 62 percent and tuberculosis rates in 60 percent. More than half of the cities would expect an increase in all four of these health indicators.

City Revenues

Over half of the cities responding say they would have to raise local revenues to compensate for proposed cuts in the federal budget. Most of those that would not raise revenues are constrained from doing so by state law, have high tax burdens already, or believe that approval of increases by voters, city councils or state legislators is unlikely. Increases in property taxes and user fees would be sought by most of the cities to compensate for federal aid losses in key urban programs.

State Aid

A total of 85 percent of the cities responding say they expect no additional funds from their states to compensate for the proposed federal budget cuts.

City Fiscal Conditions

More than nine out of 10 of the responding cities were forced to raise revenues or reduce services last year in order to balance their budgets. Nearly half raised user fees, 41 percent laid off workers or instituted hiring freezes, 40 percent cut services and 28 percent increased property taxes. Two out of three of the survey cities forecasting budget surpluses this year have already committed the funds to ongoing services or to the pay-back of prior year deficits.

Treasury Department Tax Proposals

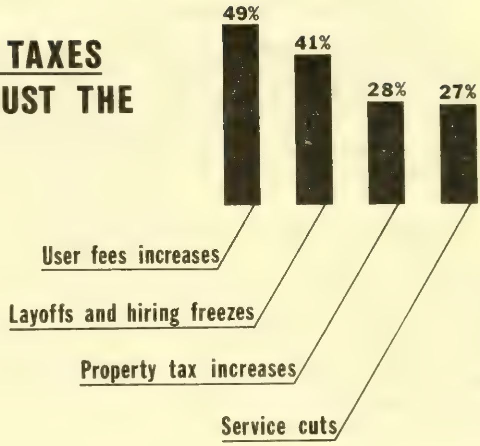
The response to the Treasury Department's proposed curbs on "private purpose" municipal bonds is almost completely negative, with all but one survey city citing at least one project or effort that would be negatively affected. For 87 percent of the respondents, the proposed elimination of the deductability of state and local taxes would make it very difficult to raise local taxes, would lead to declining real estate values, or would have other negative effects.

Appendices

The questionnaire used in the survey is included in Appendix A. Appendix B contains specific responses to selected questions for 50 of the survey cities. Appendix C contains a list of the cities responding to the survey and the 1980 Census Bureau population counts for them.

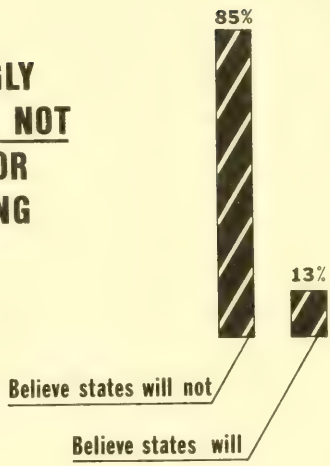
46-548 O—85——19

CITIES HAVE RAISED TAXES AND CUT COSTS IN JUST THE LAST YEAR....



and

CITIES OVERWHELMINGLY BELIEVE STATES WILL NOT COMPENSATE THEM FOR LOST FEDERAL FUNDING



GENERAL REVENUE SHARING

The overwhelming majority of cities responding to the survey predict major local budget cuts and tax increases if general revenue sharing is eliminated. Since 1972, revenue sharing has been incorporated into local budgets in an integral fashion, with cities using the funding for public safety, a variety of human services programs and many other vital city efforts. For survey cities, it ranges as a percent of city budgets from one to 25 percent.

Local Budget Cuts

A total of 97 percent of the respondents predict cuts in services if revenue sharing is lost.

- 60 percent say they would cut capital improvements
- 48 percent would cut public safety
- 32 percent would cut human services
- 15 percent would cut health services
- 14 percent would cut sanitation

In addition, 35 percent listed other major adjustments in expenditure levels -- cutting street and building maintenance, education programs, downtown development efforts, and transit; laying off workers and making across-the-board reductions in programs.

Local Tax Increases

Cities also said they would have to enact revenue increases to compensate in whole or in part for the elimination of revenue sharing. A total of 68 percent predicted some type of increases.

- 43 percent said that user fees would be increased
- 40 percent would increase property taxes
- five percent would increase sales taxes
- three percent would increase income taxes

Most cities do not have the authority to impose sales or income taxes.

In addition, 19 percent cited other major revenue adjustments -- increasing franchise taxes, permits and fines, utility taxes, license fees, business taxes, hotel taxes and the like.

Among the 32 percent of cities who said they would not raise taxes, many explained they could not because of state tax limitations, already very high tax burdens or the unlikelihood of getting council or public approval.

Finally, many cities volunteered other changes they thought they would be forced to make -- increasing debt financing, contracting more services to the private sector, deferring capital expenditures and personnel cuts, among others.

In response to the question as to whether cities expect any state aid to compensate for the loss of revenue sharing, fully 94 percent of the cities say they do not expect any such help. Only five percent predict that the state will reimburse them for any of the revenue sharing cut. Of the seven cities that said the state might help, most did not predict a percentage; in general, those who did believed the aid would be quite low.

COMMUNITY DEVELOPMENT BLOCK GRANT

Almost 93 percent of the cities responding indicate that the proposed 10 percent cut in Community Development Block Grant funds and change in the entitlement cities/small cities ratio from 70:30 to 60:40 would have either an adverse or very adverse effect.* Together the 10 percent cut and the ratio change would mean a 23 percent cut for entitlement cities and a possible 10 percent cut for small cities. Three cities report the effect would be minimal. Seven say there would be no effect. At least three of these do not now receive CDBG funds, however.

For a number of cities the proposed cut comes on top of other reductions in their CDBG allocation in recent years. Baton Rouge indicates its allocation has dropped $250,000 over the last three to four years. Milwaukee has already absorbed a $5 million cut in its CDBG allocation.

Peoria officials report that "community and economic development activities will be curtailed during a time of high unemployment and economic dislocation." For Washington, D.C., CDBG funds have been used to "provide assistance to those who need help. Gains made in the past would be affected and new improvements will not be available." Officials in Orem, Utah expect the major impact will be on "people programs." In Grand Forks the recent direction of the city's economic development efforts -- a new foreign trade zone -- would be changed significantly and the city's ability to create jobs would be particularly affected.

Tacoma reports that the proposed cuts would result in a loss of jobs (public and private), elimination or reduction of funding to agencies providing public services, and great difficulty in leveraging private investment. In Charleston, South Carolina "the two most run-down areas of the city have received substantial assistance in housing rehabilitation and job creation through the CDBG program....Since there is no way to raise sufficient local funding, neighborhood revitalization programs will deteriorate and begin regressing." Chicago officials report the cut would require them to close a health center, eliminate infrastructure improvements and postpone rehabilitation of 1250 housing units. Annapolis officials explain that "funds have already been targeted to construction of a badly needed senior center. Cuts will, at best, delay construction substantially and, at worst, extinguish the concept altogether."

* Entitlement cities include cities of 50,000 population and above, the central city of a Standard Metropolitan Statistical Area, urban counties, and some cities "grandfathered" in that had entitlement status and lost it due to population changes.

Program Areas

Cities use their CDBG funds for a variety of purposes, including economic development, housing assistance, social services, and public works/infrastructure improvements. Over one-half (52.7 percent) of the cities reporting put more of their CDBG funds into housing than any other area. Forty of these cities use 50 percent or more of their allocation for housing. Public works/infrastructure improvements account for the next most common use of the funds, with one-fourth of the cities reporting that they use more of their CDBG funds in this area than any other. These areas are followed by economic development (14.2 percent), social services (4.1 percent) and other (4.1 percent), which includes items such as administration, planning, land acquisition, property maintenance, and recreation.

The two leading purposes switch when the areas in which cities put the second greatest amount of their CDBG funds are examined. Public works/infrastructure is first with 30.1 percent of the cities, and housing is second with 23.3 percent of the cities.

When asked which of these areas would most likely be cut as a result of the federal cut, officials in 45 cities (31.3 percent) report that cuts would be made across the board in all areas for which CDBG funds are used. Housing would be cut in over two-thirds (69.4 percent) of the cities responding. Public works/infrastructure improvements would be next, with 54.2 percent of the cities making cuts there. These are followed by cuts in economic development (in 49.3 percent of the cities), social services (in 43.8 percent of the cities) and other (in 28.5 percent of the cities).

State Restorations

Only two cities expect their state governments to provide funds to compensate for the proposed federal cut in CDBG.

URBAN DEVELOPMENT ACTION GRANT

An estimated 102,000 jobs and nearly $4.3 billion in investment in projects now being planned in 70 of the cities responding to this survey will not be realized if Urban Development Action Grants are eliminated. Of the 292 UDAG projects being planned in the cities, only nine are expected to go forward without UDAG funding. These that would not go ahead without UDAG funding involve an estimated $728 million in UDAG funds, $200.9 million in other public funds, and $3.6 billion in private investment, and would create or retain an estimated 102,000 jobs.

The elimination of Urban Development Action Grants in FY86 would result in an adverse or very adverse effect in nearly three out of every four cities responding. Thirty-seven cities (26.4 percent) would feel no effect, but at least 30 of these are not eligible for the program or have been unable to receive grants with the current highly-targeted selection criteria.

Several cities report on the contribution that prior UDAG projects have made to economic development and the local economy in their cities. In Asheville, North Carolina, tax valuations have increased by approximately $23.6 million. Tacoma has received five UDAGs for a total of $10.5 million, resulting in $82.4 million in private investment and $500,000 in new taxes. In Milwaukee the UDAG program "has been responsible for leveraging over $250 million in private investment, generating new local tax revenues and creating nearly 5000 new permanent jobs."

Beaumont, Birmingham, Davenport, and Peoria all discuss how crucial UDAGs are to their downtown development. In Davenport two downtown projects hinge on UDAG grants. Peoria officials report that "the city's plan for rebuilding its downtown and strengthening the devastated local economy would lose the major projects to achieve development success."

Syracuse reports that "virtually no other funding source for large new construction projects" exists. Flint points out that without UDAG "development activity would cease because only Fortune 500 companies or high income projects can support development at conventional interest rates." Jersey City officials, who term the elimination of UDAG "very, very, very adverse" for their city, are concerned that potential developers would be scared away. Louisville explains that blighted areas will have no gap financing as incentives for development. Evansville has "a number of vacant or under utilized industrial facilities for which UDAG-type funding is essential for the projects to be financially feasible."

Erie sees Urban Development Action Grants as "very important leveraging tools for major revitalization and economic development projects involving public/private partnerships." In Akron, UDAGs "are an essential part of the proposed financing of many major

economic development projects....Many past developments would not have occurred without UDAGs." Baton Rouge officials state that the elimination of UDAG "would substantially undercut our abilities to leverage redevelopment efforts particularly in downtown and the inner city. Local governmental financing to fill this development gap is totally insufficient to address this revitalization effort in any meaningful way."

State Restorations

Only two cities expect their state governments to provide funds to compensate for the elimination of the UDAG program.

PUBLIC TRANSIT

Based on the survey, cities face sharply higher transit fares, fewer transit vehicles, reduced service -- and in a substantial number of cases, shutdown of their transit system -- if the Administration's proposed FY86 transit budget is enacted.

The Administration seeks a two-thirds cut in the nation's program of transit assistance. Under its proposal, the transit formula block grant program -- appropriated at $2.4 billion in FY85, would be completely eliminated. The one-cent federal gasoline tax, which yields $1.1 billion annually earmarked for transit discretionary expenditures, would be all that would remain under this proposal. Under the Administration's plan, it would be distributed by formula, replacing the current formula program. But even after this two-thirds reduction, no funding would be permitted for operating assistance or new rail starts. The required local match would rise from 20 to 30 percent.

The impacts of this proposal on cities would be stark. Although most transit in cities is operated by regional transit authorities and not by cities directly, 75 percent of cities responding to this survey were able to provide information regarding impacts on transit in their cities.

Fare Increases

Of the cities responding in the transit area, 83 percent report that fares will increase if the transit cut is passed.

Not every city can specify the precise range of the fare increase, but some 65 percent can now predict the range of increase, and these results indicate that very high transit increases would be forthcoming, as the figures below indicate:

Transit Fare Increases

Percentage Increase	Percentage of Cities Predicting Increases
1-25%	28.1%
26-50%	35.9%
51-100%	17.2%
101%-Above	18.8%

Almost 40 percent of the cities predict an increase of at least 50 percent, and about one out of five indicate that fares would at least double.

Vehicles Reductions

The proposed transit cut, which would completely eliminate operating assistance, would substantially reduce the number of transit vehicles in service. With less money to operate systems, and far fewer funds to replace worn out vehicles, cities will simply reduce fleets. Of those cities providing transit information, some 75 percent would be forced to reduce vehicle fleets, causing greater waits for service and more transit crowding and congestion, thereby reducing the overall quality of transit service.

Route Reductions

In addition to vehicle reductions, a large proportion of cities would be required to eliminate specific routes if the proposal was approved. More than 70 percent of the cities providing transit information fall into this category. Thus, whole neighborhoods or sections of cities could find transit service markedly diminished.

Service Reductions

Of those responding in the transit area, some 69 percent would be required to reduce overall transit service. But the percentage of service reduction which would be required is also revealing, as the figures below indicate:

Transit Service Reduction

Percentage Reduction	Percentage of Cities Predicting Service Reduction
1-25%	54.9%
26-50%	30.5%
51-75%	9.8%
76-100%	4.9%

All reductions of transit service have potentially serious impacts in cities. With more than 45 percent of the cities predicting overall service cut-backs of more than 25%, the mobility of U.S. transit riders is in jeopardy.

Threat of Shutdown

If the proposed transit budget cuts were enacted, most cities would deal with them through a combination of the above -- fare increases, and vehicle, route and service reductions. But for a sizable portion of cities, those measures would be insufficient to sustain their systems. Indeed, of those cities providing transit information, 38.6 percent report that their systems would be threatened with a shutdown.

New State Assistance

While the role of states in funding public transit has gradually increased in recent years, there is no belief among cities that additional state aid will be forthcoming in this area should the Administration's budget proposal be enacted. Less than eight percent anticipate new state transit aid.

WASTEWATER TREATMENT

Vastly increased local taxes and user fees, and threats to housing, community and economic development, jobs and environmental quality are anticipated in cities should the Administration's wastewater treatment proposal be enacted. The Administration proposes to phase out the $2.4 billion dollar wastewater treatment construction grants program over four years, ending eligibility now for new projects. The wastewater program, cut in half in FY81, helps cities meet federal standards under the Clean Water Act.

In most cases, metropolitan sewerage agencies, rather than the cities themselves, build and operate wastewater treatment plants. However, some 72 percent of those cities responding to the survey were able to give detailed information regarding the impact of the Administration's proposal.

Prospects for Completion of Projects

Of those cities, almost 36 percent would be unable to complete existing projects in four years if the budget proposal is enacted. With no federal assistance remaining, many cities across the nation would be left with unfinished wastewater treatment plants.

Court Orders and Decrees

Although federal funding may expire, to comply with 1988 clean water standards, many cities must finish existing plants or construct new plants because of judicial consent decrees, administrative orders or other binding contractual agreements. Of those cities providing wastewater information, 49 percent are in this category.

Tax/User Fee Increases

A clear majority of cities responding will not be able to meet their wastewater obligations without a significant increase in taxes or user fees. Indeed, 60 percent would be required to resort to significant tax increases or user fee increases to meet this obligation. The range of this local tax increase or user fee increase is difficult for most cities to currently estimate. However, some 43 percent are prepared to estimate the increases now as the figures below indicate:

Tax/User Fee Increases to Meet Wastewater Needs

Percentage Increase	Percentage of Cities Predicting Increases
1-25%	57.1%
26-50%	22.4%
51-75%	2.0%
76-100%	8.2%
100%-Above	10.2%

Thus, almost 43 percent of these cities predict tax or user fee increases of more than 25% to meet wastewater needs.

Impacts of Inability to Meet Needs

If cities cannot complete existing projects or construct new projects, this will have significant effects on housing, community development, economic development, jobs and environment quality. Wastewater treatment capacity is an essential element to achieving each of these key urban goals.

Not all cities can now provide information in this area. But of those providing wastewater information, 65 percent did provide information on the nature of these impacts. That information is summarized in the figures below.

Impact of Inability to Meet Wastewater Needs

Areas of Impact	Percentage of Cities Predicting this Impact
Housing	63.5%
Community Development	68.9%
Economic Development	77.0%
Jobs	68.9%
Environmental Quality	94.6%

Virtually all cities in this category reported multiple impacts from a failure to meet wastewater needs.

State Aid

Although funding for wastewater treatment is passed by the federal government to cities through state governments, less then four percent of cities providing wastewater information anticipate increased aid from states in this area.

ASSISTED HOUSING

Waiting lists for assisted housing are expected to lengthen in 93 percent of the cities responding, and the proposed moratorium on all new units of assisted housing will have an adverse or very adverse effect on the availability of housing affordable by low income people in nearly nine out of every 10 cities responding. Nearly one-half (46 percent) of the cities expect the effect to be very adverse; another 42.3 percent of the cities expect the effect to be adverse. Sixteen cities indicate there will be no impact.

Among the cities responding to the housing questions, 32,984 units of federally assisted housing were allocated during FY84. These include 16,175 Section 8, units, 2,494 Section 202 units, 5,344 public housing units, and 8,971 units under the rental rehabilitation program.

Units Needed

The number of new assisted units that cities need varies significantly. Evansville cites a need of 100 units annually. Caguas, Puerto Rico reports that "over 500 units of housing are needed each year to compensate housing needs in our community. Without this assistance affordable housing would be greatly affected." San Juan "has a present demand of 20,000 housing units per year. This coupled with 47.4 percent of the families below the poverty level (1980) in San Juan makes this proposal very detrimental for our city." Charleston officials comment: "Elimination of the funds would keep us from adding new units. We currently have over 1800 families on the waiting list. The two year moratorium of subsidies may make the projects unattractive for private developers." In Kansas City "the Section 8 program is about 2000 households. A moratorium on housing assistance will exacerbate this problem."

Growth Cities

Two growing cities point out particular housing needs. Reno explains that "because of current expansion in the casino industry, which employs large numbers of low income staff, there will not be housing available to meet needs." Tempe is experiencing rapid population growth, with a concomitant need for an increase in assisted housing.

Discussing assisted housing, Honolulu officials state: "That's one of our highest priority items -- a big problem already. We need more -- not less -- low income housing." Hayward officials point out that "Section 8 is the ONLY means of helping the 'truly needy' -- disabled, elderly, women and children who have been abandoned." Finally, "Grand Forks already has a long waiting list for assisted housing. Cuts in this program would impact low income people who cannot afford safe and decent housing. It would also seriously affect our efforts to revitalize the central business

district through rehabilitation of existing units," according to officials in that city.

Public Housing Modernization

The one year elimination of funds for modernizing public housing projects, with limited funds available only for emergencies, would have an adverse effect on 43.2 percent of the cities responding and a very adverse effect on another 33.3 percent. Thirty-three cities (23.4 percent) report that the proposal would have no effect on their public housing.

Waiting Lists

The proposed moratorium would lengthen the waiting lists for assisted housing in 93 percent of the cities responding.

The average waiting list for Section 8 units in the cities responding is 26.3 months. Twenty-nine cities have a wait for Section 8 of three years or more. Miami and Rockford each report waiting lists of 12 years. Only seven cities have waiting lists for Section 8 of six months or less.

The average waiting list for Section 202 is 18 months. Twenty cities have a wait of 24 months or more for this program. Jamestown tops the list with a wait of 60 months, with Oak Park, Michigan, Reno and San Francisco following with 36-month waits. Twenty-one cities have a wait for 202 housing of six months or less.

For public housing the average waiting list is 23.9 months. Fourteen cities have a wait of 36 months or more for public housing, with a 10-year wait in Washington, D.C., and 106 months in Mankato, Minnesota. Seventeen cities have a waiting list of six months or less for public housing.

Housing Development Action Grants

Forty-one of the survey cities are currently planning a total of 91 projects for Housing Development Action Grants. These projects would add over 8,992 units to the existing housing stock, with 46.9 percent of them, on average, for low income people.

State Restrictions

Only four cities expect their state governments to provide funds to compensate for the proposed federal moratorium on new units of assisted housing.

LOAN PROGRAMS

The effect of the elimination of Section 312 rehabilitation loans, Section 108 loan guarantees, the Small Business Administration's loan programs and the loan and grant programs of the Economic Development Administration would be adverse in 44.2 percent of the cities responding to the survey, and very adverse in another 39.1 percent. While 23 cities indicate the elimination of these programs would have no effect, only five of these cities -- Cedar Rapids, Columbus, Dallas, Iowa City and Sunrise, Florida -- have used any of the loan programs in the last year.

Comments by the cities responding show the varied uses and the importance of these loan programs:

- Akron: "Housing rehabilitation, business loans and economic development will be severely cut back. This will have a strong negative effect on the city."

- Asheville, North Carolina: "Over 125 homeowners have been assisted with Section 312 funds over recent years. The SBA 503 program has assisted five local businesses; three loans are pending."

- Beaumont: "We use them all and rely on them."

- East Chicago: "It would curtail the city's ability to assist owners in providing standard housing for low and moderate income residents.

- Erie: "Housing rehabilitation and small business would be drastically affected."

- Flint: "Small business expansion and new business start-ups would virtually cease in non high-tech areas."

- Grand Forks: "EDA has made it possible to develop the foreign trade zone. Section 312 cuts would impact central business district redevelopment. In these days of tight money SBA is a must. All of these programs create jobs, add to the tax base and are cost effective."

- Hartford: "If SBA loans are eliminated we would not be able to run our matching program....The number of loans the City makes will be reduced as the monetary value of the loans increases."

- Jamestown: "We have heavily utilized the EDA programs to attempt to rebuild our infrastructure and would definitely be hurt by EDA's proposed elimination. Many small business deals would also not happen if SBA were totally eliminated."

- Kansas City, MO: "Kansas City is in the midst of a revitalization program that relies on these loans. It would be extremely unlikely that the private sector could justify making loans in these areas without guarantees. Also, loss of SBA loans would be extremely harmful to economic development."

- Lubbock: "There is a critical need for this type of assistance for low and moderate income people in Lubbock."

- New Orleans: "These programs are critical to housing and economic development activity in the inner city. The city loses its ability to leverage private financing. The Citywide Development Corporation reports over $4 million SBA loans leverage over $7 million in private financing with a job impact of 1,107 jobs. EDA funds of $1.5 million generated over $4.5 million in private money for 405 jobs.

- Reno: "If SBA loans are eliminated, it will adversely affect the tax base and eliminate new jobs and business opportunities."

- Syracuse: "Economic growth would virtually cease."

<u>Section 312</u>

Over half (57.5 percent) of the cities responding to the survey used Section 312 loans last year. These loans came to $33.9 million and involved 3,567 housing units.

<u>Section 108</u>

Section 108 loan guarantees were used by 17.5 percent of the cities during FY84. Nineteen cities were able to guarantee $204 million in loans with the program.

<u>Economic Development Administration</u>

Loans or grants from the Economic Development Administration went to 44.4 percent of the responding cities during FY84. These came to over $38 million.

<u>State Restrictions</u>

Only two states expect their state governments to provide funds to compensate for the proposed elimination of federal loan programs.

EMPLOYMENT & TRAINING

Over 37,000 young people would be forced from jobs programs this summer in 77 of the survey cities because of the proposed recession of $100 million from the 1985 summer youth employment program. All of the proposed cuts in the Job Training Partnership Act -- elimination of the Job Corps and cuts in the summer youth employment and the dislocated worker programs -- would have an adverse effect on 45 percent of the cities responding, and a very adverse effect on another 35.2 percent. Twenty-four cities indicate the proposals would have no effect on their cities. All but six of these cities, however, are in large area consortiums and do not administer Job Training Partnership Act programs directly.

Several cities say the proposed cuts come on top of reductions already sustained in employment and training programs. Charleston officials point out that "a 10 percent decline has already occurred in the number of youth we can help. Continued reductions will only serve to put more youth on the street since alternate employment is not available." Cedar Rapids has the "same chronic unemployment as four years ago, with only one-fifth of the revenues available."

Peoria officials explain why the cuts would be very adverse for their city: "We are currently suffering 14 percent unemployment in real terms. Our economy is in an industry transition -- from heavy manufacturing to service type jobs. This requires more job training and relocation services to improve employment in the area." Akron officials are concerned that they will "not serve as many youth that work in the summer, generating income for their education. We have a large number of dislocated workers who will not be able to be served. These are people who won't be served by other programs." In Kansas City, Missouri, "fewer disadvantaged individuals who lack the training and skills necessary to enter the labor force will receive the training to enable them to obtain gainful employment."

A number of cities comment on the particular effect the proposed cuts would have on young people:

- Grand Forks: "The summer youth program has been very helpful. Young people have been used to cleanup a blighted area along the edge of the central business district."

- Flint: "No other program serves the 14 and 15 year olds included in the employment development service portion of the JTPA summer youth employment program."

- East Chicago: "There are no jobs available for the youth as industry is laying off more and more workers."

- Reno: "Proposed cuts in Job Corps and the summer youth employment program will not allow the city to serve disadvantaged youth properly in this area. There will be more youths on the streets with no positive force in their lives."

- Louisville: "Youth unemployment is at extraordinary proportions. Unemployment relates to crime, vandalism, arson and suicide."

- Mobile: "Cuts will probably result in a crime increase."

Job Corps

Since Job Corps sites are not administered by cities, many of those responding are unable to estimate the number of young people in their city who are served by the program. Forty-six cities did have this information, however, and they estimate that nearly 16,000 young people from those cities are served by the program. Alternative services for the young people in Job Corps would be available in just under one-third (31.9 percent) of the cities responding. In over two-thirds of the cities, such services would not be available.

Many of the comments on the effect that the elimination of Job Corps would have on the young people it serves reflect the fact that the program serves an often troubled population:

- Evansville: "They would turn to other programs which are also being cut back or they would become offenders again. (Job Corps = exoffenders)"

- Columbus: "The program serves delinquents and 'pre-delinquents.' Some would end up in the correctional system."

- Milwaukee: "Social and income maintenance costs would increase."

- Hartford: Elimination of the program "will increase unemployment and our welfare caseload."

- Jamestown: "They will end up in the adult criminal justice system or social services child protection."

- Tacoma: "Job Corps represents the last stop for many of these youths. Jobs Corps is the only thing that keeps them away from an environment that has prevented them from being successful."

Summer Youth Employment

Proposed cuts in the summer youth employment program would force 37,205 young people in 77 of the survey cities from the program this summer and 39,060 young people in 73 cities from the program next summer. In over four out of five cities (84 percent) alternative services for these young people will not be available.

In commenting on what would happen to the young people forced from the program, several cities highlight the importance of the program to a low income family's income and to the young person's

education. Allentown points out that the "loss of income could jeopardize education." Seattle officials explain that the city "will have no structured program for them and they probably won't be able to get jobs for the summer. For some children this is serious because they need the money earned in the summer to help pay school costs." Cedar Falls expects that low income families will be particularly hard hit. Iowa City comments that "many of them support themselves or their families."

Others are concerned about the lack of constructive activity. In Columbus "many will end up in 'unstructured environments' -- the city would attempt to attract these youths to recreational programs." Miami and Muncie both comment that young people forced from the summer jobs program will be idle. Chicago officials are concerned that "they would be enticed to join gangs since they would have nothing else to do."

State Restrictions

Only three cities expect their state governments to provide funds to compensate for the proposed federal cuts in employment and training programs.

HEALTH

Based on survey responses, proposed cuts in federal health outlays in FY86 will negatively affect the nation's cities and the people who live in them. From Louisville to Lubbock, from Tacoma to East Orange, from Peoria to Caguas, there is deep concern over the Administration's plans to reduce funding for Medicaid, health block grants and categorical health programs. There is fear that the incidence of infant mortality, childhood diseases, tuberculosis and sexually transmitted diseases will rise -- an effective demonstration of failing health. There is fear that people in need of health care will not receive it. And there is concern that costs of health care will be shifted to local governments.

Eighty percent of all respondent cities with local health departments said they expect an increase in local health costs as a result of such cost shifting.

Medicaid

Seventy percent of cities surveyed said the Administration's plans to cap Medicaid payments to the states will produce reductions in locally available health services or in the number of people who receive care. Sixty-five percent of the cities project cuts in both -- quantity of health services and numbers of people served.

While some cities do not expect Medicaid cuts to directly impact local government, many of them believe there will be an indirect impact. Grand Forks, for instance, said a ripple effect would occur, with other local agencies feeling the pinch. One Pennsylvania city suggested the proposed Medicaid cuts would further reduce the already small number of physicians willing to accept Medicaid patients.

Incidence of Disease

The survey asked cities to indicate if they anticipated an increase in infant mortality, childhood diseases, tuberculosis or sexually transmitted diseases as a result of health funding cuts. About 69 percent foresee a rise in at least one of these categories. More than half said there would be an increase in all four health indicators, meaning a worsening in the city's health status:

- Sexually transmitted disease rates will increase in 67 percent of the cities
- Childhood disease rates will increase in 64 percent
- Infant mortality rates will increase in 62 percent
- Tuberculosis rates will increase in 60 percent

State Restorations

Fewer than four percent of the cities surveyed said they expect the state to provide funding to compensate for any portion of anticipated federal funding cut-backs. In all but two cases, the cities estimated the state restoration as too small to calculate.

CITY FISCAL CONDITIONS

The vast majority of responding cities say they raised revenues or reduced services last year to achieve a balanced budget. A total of 91 percent of the cities said they were forced to take some action. Thus, many painful budget decisions have already been made by cities -- decisions which continue to affect their revenue and expenditure patterns in the current fiscal year.

Of the total number of cities responding

- 49 percent said they raised user fees last year
- 41 percent laid off workers or instituted hiring freezes
- 28 percent enacted property tax increases
- 40 percent were forced to cut services
- 11 percent enacted other tax increases
- 20 percent instituted other changes.

These other changes include speedups of tax collections, cancelling large purchases, fund transfers and a myriad of smaller tax increases.

For this fiscal year, most cities say they are currently predicting a balanced budget. Cities are required by law to balance their budgets. Yet, city expectations of budget balances are contingent on continuing federal aid. Otherwise, additional service cuts or revenue increases will have to be made by these cities soon.

Many of the cities now face a more difficult and more uncertain future because their fiscal years differ from the fiscal year of the federal government. For example, a large number of cities have fiscal years extending from January 1 to December 30, which means their FY85 budgets could be substantially affected by FY86 federal budget cuts which would be effective on October 1.

Of the 22 percent of the survey cities forecasting a budget surplus this fiscal year two out of three have already committed the funds to ongoing services or to the pay-back of prior year deficits. On average, these surpluses comprise 4.3 percent of total city revenues.

Nine percent of the cities responding must take action to avert a deficit this year. On average, the deficits to be overcome represent 8.5 percent of the total city revenues.

STATE AID

The overwhelming majority of cities -- a total of 85 percent -- say they expect no additional funds whatsoever from their states to compensate for the federal budget cuts. Thirteen percent expect their state to provide some funds.

In general, the percentages of cities expecting additional state aid in specific program areas are quite low: Eight percent of the cities expect additional state aid for transportation, 6 percent for health, 4 percent for assisted housing, 4 percent for wastewater treatment and still lower percentages for Community Development Block Grants, Urban Development Action Grants, employment and training and loan programs.

Very few cities could estimate what percent of the federal program cuts might be made up by the states. Those who did predicted very low percentages in virtually all program areas.

There was little correlation of city expectations of additional aid within a state -- that is, while one city in a state would expect additional state aid to compensate for transit (or other) losses, other cities in that state usually would not.

The percentage of cities expecting state aid to compensate for the elimination of general revenue sharing (reported in the "General Revenue Sharing" chapter of this report) was still lower. A total of 94 percent of the cities said they did not expect any additional state help whatsoever to compensate for the loss of revenue sharing.

CITY REVENUES

Fifty-one percent of the cities responding to the Conference of Mayors survey said they would raise local revenues to compensate for some of the proposed federal budget cuts. (For general revenue sharing the percentage is much higher -- 68 percent). Another 49 percent said they would not, either because they are constrained from doing so by state law, have high tax burdens already, or because of the unlikelihood of getting approval from voters, city councils or state legislators. In addition, some of these cities said they would be forced to borrow additional funds in the bond market or take other actions to adjust. Only 3 percent said they would be able to absorb the cuts in some relatively painless way.

Because this was a tax question dealing only with whether cities intend to compensate for the federal budget cuts by raising their own revenues, it does not specifically cover any of the other mechanisms they may use to adjust to such cuts -- service cuts, layoffs, etc.

The major revenue increases cited by respondents were predominantly user fees and property tax increases. To a lesser extent, cities predicted other adjustments, sales tax increases, income tax hikes and other actions.

The table below shows the percentages of the cities that said they would raise specific types of taxes. As can be seen, of those who said they would increases taxes, 53 percent said they would increase user fees for wastewater treatment, and 45 percent would increase them public transit. These programs lend themselves fairly well to user fees, while other programs do not. Of those saying they would raise other taxes, 26 percent said they would increase property taxes to compensate for part of the loss of Community Development Block Grants, 20 percent to compensate for health, 19 percent for transit, 14 percent for wastewater treatment. Most of the cities responding cited more than one revenue increase that they would be forced to make. Consequently, the percentage totals add to more than 100 percent.

Percent of Cities Intending to Raise Taxes to Compensate for Federal Cuts

	Property Tax	Sales Tax	Income Tax	User Fees	Other
Assisted Housing	12%	3%	1%	4%	4%
Community Development Block Grant	26	4	3	4	9
Urban Development Block Grant	8	0	0	0	4
Loan Programs	7	0	0	3	4
Employment & Training	9	0	0	4	1
Health	20	1	0	18	7
Public Transit	19	7	0	45	5
Wastewater Treatment	14	1	0	53	9
Other	16	3	3	14	7

TREASURY DEPARTMENT TAX PROPOSALS

The vast majority of cities predict major adverse consequences for their localities if some of the Treasury Department's tax proposals are adopted.

Curbs on Municipal Bonds

The response to the Treasury Department's proposed curbs on "private purpose" municipal bonds is almost completely negative, with all but one city citing at least one project or effort which would be affected.

Negative effects were cited by

- 90 percent on economic development activities
- 55 percent on infrastructure
- 49 percent on low income housing
- 25 percent on resource recovery
- 25 percent on airports
- 18 percent on nonprofit and private hospitals
- 13 percent on other projects.

The "other" category included renovation of historic buildings and areas, neighborhood and business revitalization, single-family mortgage revenue bonds, social service programs, park development and an increase in interest costs for nearly all city projects.

Elimination of Deductibility

An overwhelming 87 percent predicted that elimination of deductibility of state and local taxes would make it very difficult to raise local taxes, would lead to declining real estate values, or have other negative effects. These "other effects" include increased pressure to reduce taxes, a slowdown in economic development, increased condo conversions and a shift from taxes to user fees. Only nine percent of the sample said there would be no effect and another two percent said they did not yet know the precise effects.

Elimination of Tax Credits

A sizeable majority of the cities also predict that elimination of rehabilitation and historic tax credits -- as proposed by the Treasury Department -- would be adverse or very adverse for their

cities. A total of 80 percent say the results would be adverse of very adverse; 20 percent say there would be virtually no effect.

Most of the cities had some knowledge of public-private projects using the rehabilitation tax credits -- those where there is some investment or participation by the city. Few, were however, aware of the private-only projects which might be using the credits.

Elimination of Charitable Deductions

A total of 85 percent of the cities said that the availability of private and nonprofit social services would suffer as a result of the Treasury plan to curb charitable contributions.

APPENDICES

APPENDIX A

PLEASE MAIL THIS QUESTIONNAIRE NO LATER THAN CLOSE OF BUSINESS, MONDAY, FEBRUARY 25, 1985 TO THE U.S. CONFERENCE OF MAYORS

Do you wish the information in this questionnaire held confidential?
___Yes ___No CITY____________________

THE IMPACT OF THE PROPOSED FY86 BUDGET ON CITIES

1. **General Revenue Sharing**

a) The Administration's budget proposes to eliminate General Revenue Sharing in FY86. What percentage of your city's total revenues including all intergovernmental grants is accounted for by the revenue sharing program?__________%

b) If revenue sharing is eliminated, what is your city's likely course of action? Check the appropriate items below.

Cuts in Services
___Public safety (police and fire)
___Human services
___Sanitation
___Capital improvements
___Health services
___Other (explain)____________________
___None

Tax Increases
___Property taxes
___Income taxes
___User fees
___Sales taxes
___Other tax hikes (explain)____________________

Other Actions (explain)____________________
____
____

c) Do you expect your state government will make up for any of the cut in revenue sharing funds? ___Yes ___No
If yes, what percentage?__________%

2. **Community Development Block Grant**

a) The Administration's FY86 budget proposes a 10 percent cut in CDBG and a change in the entitlement cities/small cities ratio from 70/30 to 60/40. This translates into a proposed 23 percent cut for entitlement cities and a possible 10 percent cut for small cities. What will be the effect of this cut on community development in your city?
___None ___Adverse ___Very Adverse

PAGE 2 CITY____________________

Explain____
____
____

b) Show the percentage of your CDBG that goes into each of the following areas.
Economic Development________________%
Housing Assistance__________________%
Social Services_____________________%
Public Works/Infrastructure__________%
Other_______________________________%

c) Which of the areas listed above would most likely be cut in your city as a result of the federal cut?___________
____

3. **Urban Development Action Grants**

a) The federal budget proposes to eliminate UDAGs beginning in FY86. What would be the effect of the elimination of the program in your city?
___None ___Adverse ___Very Adverse

Explain____
____
____

b) How many projects eligible for UDAG funding is your city now applying for or planning to apply for? ______

c) How many dollars in the following categories do these projects involve?
UDAG $______________________
Other public $________________
Private $____________________

d) How many jobs would these projects create in your city?
____

e) How many of these projects do you expect to go ahead without UDAG funding?__________________________

4. **Public Transit**

The proposed FY86 budget calls for a two-thirds reduction in transit assistance, which would include a total elimination of federal operating assistance and a rise in the local matching share from 20 to 30 percent. The combined effect of this proposal would mean a loss of most of the federal capital assistance as well as all of the transit operating assistance to your urban area. If this budget were approved:

PAGE 3 CITY______________________

a) Would the fares charged by your transit system increase?
___Yes ___No If yes, by what percent?__________%

b) Would there be a reduction in the number of transit vehicles in service? ___Yes ___No

c) Would there be a reduction in routes? ___Yes ___No

d) Overall, what percentage of transit service would be reduced? ________% reduction of service

e) Would the transit system in your city be threatened with a shutdown? ___Yes ___No

5. **Wastewater Treatment Construction Grants**

The proposed FY86 budget calls for a four year phaseout of wastewater treatment construction grants, with a likely schedule to be a 25 percent reduction in each of the next four years. During those four years, federal funding would only be available for completing existing projects. Beginning in FY86 no funding would be available for new projects. If this budget were enacted:

a) Would your city be able to complete existing wastewater treatment facilities in four years, given a 25 percent reduction in each of the next four years? ___Yes ___No

b) Is your city operating under a consent decree, administrative order or other binding contractual agreement to comply with FY88 clean water standards?
___Yes ___No

c) In the absence of federal funding, will your city be able to meet these obligations without a significant increase in taxes or user fees? ___Yes ___No
Estimate the percent of tax or user fee increase required
_______________%

d) Would the inability to complete an existing project or construct a new project have a negative impact on (check if relevant)
___Housing
___Community development
___Economic development
___Jobs
___Environmental quality

6. **Assisted Housing**

a) The FY86 budget proposes a moratorium on all new units of assisted housing. What will be the effect of this moratorium on the availability of housing affordable by low income people in your city?
___None ___Adverse ___Very Adverse

PAGE 4 CITY______________________

Explain ____

____

____

b) Funds for the modernization of public housing, other than for emergencies, would be eliminated for one year. What would be the effect of this action on public housing in your city?
___None ___Adverse ___Very Adverse

c) What is the current waiting list for the following types of assisted housing in your city?
Section 8______________months
Section 202____________months
Public Housing_________months
What will be the effect of the proposed moratorium on these waiting lists? ___None ___They will be lengthened.

d) How many units did your city receive in each of the following categories of assisted housing in FY84?
Section 8______________________
Section 202____________________
Public Housing_________________
Rental Rehabilitation__________

e) How many projects eligible for Housing Development Action Grants is your city now applying for or planning to apply for?____
How many total units are involved?_______________________
What percentage of these units are for low income people?
_________________________________%

7. **Loan Programs (Section 312, Section 108, EDA, SBA)**

a) The FY86 budget proposes to eliminate Section 312 rehabilitation loans, Section 108 community development loan guarantees, the Small Business Administration's loan programs and the loan and grant programs of the Economic Development Administration. What would be the effect on your city of the elimination of these programs?
___None ___Adverse ___Very Adverse

Explain ____

____

____

b) Did your city use the Section 312 loan program last year?
___Yes ___No
If yes, how much money and how many units were involved?
$____________ ________________units

PAGE 5 CITY_______________________

c) Did your city use Section 108 loan guarantees during FY84?
___Yes ___No
If yes, how much money was guaranteed by this program in your city last year? $_____________

d) Did your city receive funds from the Economic Development Administration during FY84? ___Yes ___No
If yes, how much? $___________________________

8. **Employment and Training**

a) The FY86 budget proposes to eliminate the Jobs Corps, to cut the summer youth employment program by $100 million (12 percent) in FY85 and by another $60 million (19.4 percent in total) in FY86, and to cut the dislocated worker program by $120 million in FY85 (51 percent) and by another $15 million (57 percent in total) in FY86. What will be the effect of these cuts on your city?
___None ___Adverse ___Very Adverse

Explain ____

b) How many young people in your city are served by the Jobs Corps?________________
Are alternative services available to them in your city?
___Yes ___No
What will happen to these young people if the program is eliminated?____

c) How many young people in your city will be forced from the summer youth employment program if it is cut this summer?
____________ next summer?________________
Are other jobs programs available for them? ___Yes ___No
What will happen to these young people?_________________

9. **Health**

a) The FY86 budget proposes to cut $1.1 billion from the Medicaid program, capping federal matching payments to the states. Do you anticipate a reduction in services or a reduction in the number of people served as a result? (Check if appropriate)
Services cut ___Yes ___No
People cut ___Yes ___No

b) The FY86 budget proposes to freeze health block grants (maternal and child health, prevention, primary care, and alcohol, drug abuse and mental health) at FY85 levels and to cut various public health programs such as immunization, tuberculosis control, and sexually transmitted disease control. Do you expect the incidence of infant mortality, childhood diseases, tuberculosis, or sexually transmitted diseases to rise as a result?

Infant mortality ___Yes ___No
Child diseases ___Yes ___No
Tuberculosis ___Yes ___No
Sexually transmitted diseases ___Yes ___No

c) Does your city operate a local health department?
___Yes ___No
If yes, will it experience an increase in local costs as a result of a shifting of costs and responsibilities for services from other local providers? ___Yes ___No

10. Will your city government be able to raise local revenues to compensate for any of the federal cuts described in questions one through nine? ___Yes ___No

If yes, check below for which program areas and by which kind of tax your city would raise local revenues

	Property Tax	Sales Tax	Income Tax	User Fees	Other
Assisted Housing					
CDBG					
UDAG					
Loan Programs					
Employ. & Train.					
Health					
Public Transit					
Wastewater Treat.					
Other Programs					

11. Do you expect your state government to provide funds to your city to compensate for the cuts? ___Yes ___No

If yes, please check those program areas for which you expect your state to provide funds and indicate the percentage of the cut you expect the state to restore.

___Assisted Housing__________%
___CDBG__________%
___UDAG__________%
___Loan Programs__________%
___Employment and Training__________%
___Health__________%
___Transportation__________%
___Wastewater Treatment__________%

PAGE 7 CITY______________________

12. **Surplus/Deficit**

a) For the current fiscal year are you now facing an
___operating budget deficit,
___operating budget surplus, or
___balanced budget?

b) If you are facing a surplus or a deficit, what percent of total revenues does this represent?______%

c) If you expect a surplus this year, is this surplus already committed to ongoing services? ___Yes ___No

d) What is your city's fiscal year?________________________

e) Check which budget adjustment, if any, your city made in the last fiscal year to achieve a balanced budget.
___Property tax increases
___User fee increases
___Income tax increases
___Other tax hikes
___Service cutbacks
___Hiring freezes or layoffs
___Other (explain)____

13. **Tax Proposals**

The Treasury Department has proposed a tax plan which proposes to end the tax exemption of all private purpose bonds, to curtail the charitable contribution deduction, to eliminate all rehabilitation and historic preservation tax credits and to eliminate the deductability of all state and local taxes, including property taxes.

a) Check the types of projects that would be jeopardized in your city if the exemption for private purpose bonds is terminated.
___Infrastructure projects
___Resource recovery
___Airports
___Ports
___Low income housing
___Hospitals
___Economic development activities
___Other (explain)____

b) What would be the effect in your city of terminating all rehabilitation and historic tax credits?
___None ___Adverse ___Very Adverse
How many projects are currently pending in your city for which you plan to make use of these tax credits? ________

PAGE 8 CITY______________________

c) Will social services in your city be adversely affected by Treasury's plan to curtail the charitable contribution deduction?
___Yes ___No

d) What do you expect will be the result in your city if the current deduction for state and local taxes were eliminated?
___More difficulty raising local taxes
___Adverse effect on real estate values
___Other effect (explain)______________________
___NO effect

PERSON COMPLETING QUESTIONNAIRE
Name______________________
Title______________________
Agency______________________
Address______________________
____
Telephone (   )______________________

PLEASE MAIL THIS QUESTIONNAIRE NO LATER THAN CLOSE OF BUSINESS MONDAY, FEBRUARY 25, 1985 TO:

U.S. CONFERENCE OF MAYORS
1620 EYE STREET, N.W.
WASHINGTON, D.C. 20006

THANK YOU!

46-548 O—85——20

APPENDIX B: SURVEY RESPONSES FROM FIFTY SELECTED CITIES

CITY NAME	GENERAL REVENUE SHARING: Service Cuts	GENERAL REVENUE SHARING: Tax Increases	CDBG: Areas Cut	UDAG: Effect of Program Elimination	TRANSIT: Effect of Cuts. Will Fares Increase?
	A-Public Safety B-Human Services C-Sanitation D-Capital Improvement E-Health Services	A-Property Taxes B-Income C-User Fees D-Sales	A-Economic Develop B-Housing Services C-Social Serivices D-Public Works/ Infrastructure		
Annapolis, MD	A,D	A,C	B,D	none	yes
Ashland, KY	D	C	A,B,C,D	adverse	yes
Asheville, NC	D	A,C	B	very adverse	yes
Aurora, CO	--	--	A,B,C,D	none	--
Birmingham, AL	B,D	--	B	very adverse	yes
Caguas, PR	--	--	C,D	very adverse	--
Cambridge, MA	--	A	B	adverse	yes
Cedar Rapids, IA	--	A	B	none	yes
Charleston, SC	A,C,D	A,C	A,B	very adverse	yes
Cheyenne, WY	D	--	A	none	no
Chicago, IL	B,C,E	--	A,B,C,D	adverse	yes
Clearwater, FL	--	A,C	A,B	--	--
Columbus, OH	--	C	A,B,C,D	none	yes
East Orange, NJ	A,B,D	A	A,B	adverse	yes
Erie, PA	A	A	A,B,C,D	very adverse	yes
Evansville, IL	A,B,E	A,B	A,B,C,D	very adverse	yes
Flint, MI	A	A	B	very adverse	yes
Fresno, CA	D	--	--	adverse	yes
Greenville, SC	D	A,C	--	adverse	yes
Hartford, CT	--	A	--	very adverse	yes
Hermitage, PA	D	A	B	none	--
Iowa City, IA	B,D	A,C	B	none	yes
Jamestown, NY	A,B	A,C	A,B,C,D	very adverse	yes
Juneau, AK	--	A,C	--	--	no
Lafayette, IN	A,D,E	A,C	A,D	adverse	yes

CITY NAME	GENERAL REVENUE SHARING: Service Cuts (A-Public Safety, B-Human Services, C-Sanitation, D-Capital Improvement, E-Health Services)	GENERAL REVENUE SHARING: Tax Increases (A-Property Taxes, B-Income, C-User Fees, D-Sales)	CDBG: Areas Cut (A-Economic Develop, B-Housing Services, C-Social Serivices, D-Public Works/ Infrastructure)	UDAG: Effect of Program Elimination	TRANSIT: Effect of Cuts. Will Fares Increase?
Louisville, KY	C,D	--	B,D	adverse	yes
Lubbock, TX	D	A,C	B,C	very adverse	yes
Madison, WI	D	A,C	A,B	adverse	yes
Mankato, MN	A,D	A,C	--	none	yes
Miami, FL	A,B,C	--	C	very adverse	--
Milwaukee, WI	A,C,E	A	A,B,C,D	very adverse	yes
Mobile, AL	D,E	--	B	none	yes
New Orleans, LA	--	--	A,B,C,D	adverse	no
Norfolk, VA	B,C,D,E	A,C	B	adverse	no
Oak Park, MI	A,B	--	A,B,C,D	very adverse	yes
Orem, UT	A,D	A	B,C	none	yes
Pawtucket, RI	A,C,D	A	A,B,C,D	adverse	yes
Peoria, IL	A,D	--	B,C	very adverse	yes
Rochester, MI	D	A	A,C	none	yes
St. Louis, MO	--	--	B	very adverse	yes
San Francisco, CA	B,D	--	A,B,C,D	very adverse	no
Seattle, WA	--	--	--	adverse	yes
South Bend, IN	--	A	A,B,C,D	adverse	yes
Spokane, WA	A,B,D	C	B,C	none	yes
Syracuse, NY	--	A	A,B,C	very adverse	--
Tacoma, WA	A,B,C	--	C	adverse	yes
Tempe, AZ	--	--	B	none	yes
Toledo, OH	B,C,D,E	--	B,C	very adverse	--
Trenton, NJ	A	A	B,C	very adverse	yes
Tuscon, AZ	--	--	A,B,C	adverse	yes

CITY NAME	WASTEWATER TREATMENT	HOUSING	LOANS	EMPLOYMENT & TRAINING	HEALTH
	Able to complete existing projects in 4 years?	Moratorium. Will waiting list for new units be lengthened?	Effect of elimination of loan programs (SBA, Sec. 132, 108, EDA)	Effect of elimination/cuts (Summer Youth Employment and Dislocated Worker)	Will services be cut due to Medicaid cut?
Annapolis, MD	no	yes	adverse	adverse	--
Ashland, KY	no	yes	very adverse	none	--
Asheville, NC	no	yes	very adverse	--	--
Aurora, CO	--	yes	adverse	adverse	yes
Birmingham, AL	--	yes	adverse	very adverse	no
Caguas, PR	no	yes	very adverse	--	--
Cambridge, MA	--	yes	very adverse	very adverse	yes
Cedar Rapids, IA	--	yes	none	very adverse	--
Charleston, SC	yes	yes	very adverse	very adverse	--
Cheyenne, WY	yes	--	none	none	--
Chicago, IL	--	--	adverse	--	--
Clearwater, FL	yes	--	adverse	none	--
Columbus, OH	yes	no	none	--	no
East Orange, NJ	yes	yes	very adverse	adverse	yes
Erie, PA	--	yes	adverse	very adverse	yes
Evansville, IL	yes	yes	very adverse	very adverse	yes
Flint, MI	yes	yes	very adverse	very adverse	yes
Fresno, CA	yes	--	--	adverse	--
Greenville, SC	--	--	adverse	--	--
Hartford, CT	--	yes	very adverse	very adverse	yes
Hermitage, PA	yes	--	adverse	--	--
Iowa City, IA	no	yes	none	adverse	--
Jamestown, NY	no	yes	very adverse	adverse	yes
Juneau, AK	yes	--	none	--	no
Lafayette, IN	no	yes	none	very adverse	yes

CITY NAME	WASTEWATER TREATMENT	HOUSING	LOANS	EMPLOYMENT & TRAINING	HEALTH
	Able to complete existing projects in 4 years?	Moratorium. Will waiting list for new units be lengthened?	Effect of elimination of loan programs (SBA, Sec. 132, 108, EDA)	Effect of elimination/cuts (Summer Youth Employment and Dislocated Worker)	Will services be cut due to Medicaid cut?
Louisville, KY	no	yes	very adverse	adverse	yes
Lubbock, TX	yes	yes	very adverse	adverse	yes
Madison, WI	yes	yes	adverse	adverse	yes
Mankato, MN	yes	yes	adverse	none	--
Miami, FL	--	yes	very adverse	very adverse	yes
Milwaukee, WI	yes	--	very adverse	adverse	yes
Mobile, AL	yes	yes	adverse	adverse	--
New Orleans, LA	no	yes	very adverse	adverse	yes
Norfolk, VA	yes	yes	very adverse	adverse	yes
Oak Park, MI	no	yes	very adverse	very adverse	yes
Orem, UT	yes	--	--	adverse	yes
Pawtucket, RI	no	yes	very adverse	adverse	yes
Peoria, IL	no	--	very adverse	very adverse	yes
Rochester, MI	yes	--	adverse	none	--
St. Louis, MO	no	--	very adverse	very adverse	--
San Francisco, CA	no	yes	adverse	adverse	no
Seattle, WA	yes	--	very adverse	very adverse	yes
South Bend, IN	yes	yes	adverse	very adverse	yes
Spokane, WA	yes	yes	adverse	adverse	yes
Syracuse, NY	--	yes	very adverse	very adverse	--
Tacoma, WA	yes	yes	very adverse	adverse	yes
Tempe, AZ	--	yes	--	--	--
Toledo, OH	--	--	very adverse	--	--
Trenton, NJ	no	yes	very adverse	very adverse	yes
Tuscon, AZ	yes	yes	adverse	very adverse	--

CITY NAME	LOCAL REVENUE	STATE ASSISTANCE	PAST YEAR BUDGET ADJUSTMENTS	ELIMINATION OF FEDERAL TAX EXEMPTION FOR PRIVATE PURPOSE BONDS	ELIMINATION OF STATE/LOCAL TAX DEDUCTIBILITY
	Can local revenue be raised to compensate for federal cuts?	Will state provide funds to compensate for federal cuts?	A-Property Tax Increase B-User Fee Increase C-Income Tax Increase D-Other Tax Increase E-Service Cutbacks F-Hiring Freeze/Layoff	A-Infrastructure proj. B-Resource recovery C-Airports D-Ports E-Low Income Housing F-Hospitals G-Economic Development	A-More difficulty raising local taxes B-Adverse effect on real estate C-No effect
Annapolis, MD	yes	no	A,B	A,B,G	A,B
Ashland, KY	yes	no	E,F	A,F,G	A
Asheville, NC	no	no	B,D	A,C,E,G	A,B
Aurora, CO	no	no	--	--	--
Birmingham, AL	no	no	--	F,G	C
Caguas, PR	no	yes	E,F	--	--
Cambridge, MA	no	no	A	G	A,B
Cedar Rapids, IA	yes	--	--	A,C	A
Charleston, SC	no	no	A,B	A,C,D,E,F,G	A,B
Cheyenne, WY	no	no	F	--	C
Chicago, IL	no	no	B,D,F	A,C,E,G	A
Clearwater, FL	yes	no	A,B	G	C
Columbus, OH	yes	yes	--	G	C
East Orange, NJ	yes	no	A	A	B
Erie, PA	no	no	A,F	--	A,B
Evansville, IL	no	no	A	G	A
Flint, MI	yes	yes	C	A,C,E,G	C
Fresno, CA	no	no	--	A,C,E,F,G	B
Greenville, SC	yes	no	--	A	A
Hartford, CT	no	no	--	G	A,B
Hermitage, PA	--	no	C	--	A,B
Iowa City, IA	yes	no	A,B	--	--
Jamestown, NY	no	no	A,B	G	A,B
Juneau, AK	yes	yes	A,B	A,E	C
Lafayette, IN	yes	no	A,B,C	A,G	A,B

CITY NAME	LOCAL REVENUE Can local revenue be raised to compensate for federal cuts?	STATE ASSISTANCE Will state provide funds to compensate for federal cuts?	PAST YEAR BUDGET ADJUSTMENTS A-Property Tax Increase B-User Fee Increase C-Income Tax Increase D-Other Tax Increase E-Service Cutbacks F-Hiring Freeze/Layoff	ELIMINATION OF FEDERAL TAX EXEMPTION FOR PRIVATE PURPOSE BONDS A-Infrastructure proj. B-Resource recovery C-Airports D-Ports E-Low Income Housing F-Hospitals G-Economic Development	ELIMINATION OF STATE/LOCAL TAX DEDUCTIBILITY A-More difficulty raising local taxes B-Adverse effect on real estate C-No effect
Louisville, KY	no	no	--	E	--
Lubbock, TX	no	no	--	C,G	B
Madison, WI	yes	no	A,B,E,F	A,B,E,G	A
Mankato, MN	yes	yes	A,B	G	A
Miami, FL	no	no	A,B,F	A,G	A
Milwaukee, WI	no	no	A,B	E,G	A,B
Mobile, AL	no	no	D	G	A,B
New Orleans, LA	yes	no	B,D,E,F	A,B,C,D,E,F,G	A,B
Norfolk, VA	no	no	B	C,F,G	A,B
Oak Park, MI	no	no	F	A,G	A,B
Orem, UT	--	no	A,B	A,B,E,F,G	A,B
Pawtucket, RI	no	yes	A	E,G	A
Peoria, IL	no	no	--	A,G	A
Rochester, MI	yes	no	A	F,G	A,B
St. Louis, MO	no	no	F	A,B,C,E,G	A
San Francisco, CA	no	no	--	E,G	C
Seattle, WA	no	no	B	A,B,E,F,G	A
South Bend, IN	yes	no	A,E,F	A,B,C,G	A,B
Spokane, WA	yes	no	B,E	B,G	A
Syracuse, NY	no	no	A,F	E,G	A
Tacoma, WA	yes	no	E,F	G	A,B
Tempe, AZ	no	no	A,B	E,G	A
Toledo, OH	[illegible]	no	B,C	A,B,C,D,E,G	A,B
Trenton, NJ	[illegible]	yes	A,E,F	E	C
Tuscon, AZ	--	no	A,B	E,G	B

APPENDIX C: CITIES RESPONDING TO THE SURVEY

CITY	POPULATION	CITY	POPULATION
Akron, OH	231,659	Fort Wayne, IN	167,633
Alameda, CA	63,852	Fresno, CA	244,623
Allentown, PA	104,324	Gastonia, NC	47,333
Annapolis, MD.	31,740	Grand Forks, ND	43,765
Anchorage, AK	194,675	Grand Rapids, MI	182,774
Ann Arbor, MI	104,880	Greeley, CO	53,006
Arlington, TX	182,975	Greenville, SC	58,242
Asheville, NC	53,281	Hamilton Township, NJ	82,801
Ashland, KY	27,064	Harrisburg, PA	53,264
Aurora, CO	184,372	Hartford, CT	136,334
Baton Rouge, LA	361,572	Hawthorne, CA	56,447
Beaumont, TX	123,477	Hayward, CA	94,167
Benton Harbor, MI	14,707	Hermitage, PA	17,540
Birmingham, AL	283,239	Highland Park, IL	30,611
Boston, MA	560,847	Honolulu, HI	781,899
Bountiful, UT	32,877	Houston, TX	1,725,617
Brooklyn Center, MN	31,230	Indianapolis, IN	707,655
Buena Park, CA	64,165	Inkster, MI	35,190
Caguas, PR	119,800	Iowa City, IA	50,508
Cambridge, MA	95,322	Jackson, MS	204,195
Carbondale, IL	27,194	Jacksonville, FL	556,370
Cedar Rapids, IA	109,086	Jamestown, NY	35,775
Charleston, SC	69,510	Jersey City, NJ	222,881
Cheyenne, WY	47,283	Joliet, IL	77,956
Chicago, IL	2,997,155	Juneau, AK	27,500
Cincinnati, OH	380,118	Kansas City, KS	162,211
Clearwater, FL	85,450	Kansas City, MO	445,222
Cleveland, OH	558,869	Kettering, OH	61,186
Colorado Springs, CO	231,699	Kokomo, IN	47,808
Columbus, OH	570,588	Lafayette, IN	43,011
Concord, CA	104,061	La Mirada, CA	40,986
Corpus Christi, TX	246,081	Largo, FL	58,977
Covington, KY	49,013	Lauderhill, FL	37,271
Cranston, RI	71,992	Los Angeles, CA	3,022,247
Culver City, CA	38,139	Louisville, KY	293,531
Dallas, TX	943,848	Lubbock, TX	176,588
Davenport, IA	103,799	Madison, WI	172,640
De Kalb, IL	33,099	Mankato, MN	28,651
Denton, TX	48,063	Mason City, IA	30,144
Denver, CO	505,563	Memphis, TN	645,760
Detroit, MI	1,138,717	Miami, FL	382,726
East Chicago, IN	39,786	Milwaukee, WI	631,509
East Orange, NJ	77,878	Minneapolis, MN	369,161
Elmhurst, IL	44,251	Mobile, AL	204,586
Erie, PA	118,493	Monroe, LA	57,597
Evansville, IN	130,275	Montebello, CA	52,929
Fall River, MA	92,574	Muncie, In	77,216
Flint, MI	154,019	Nashua, NH	67,865

CITY	POPULATION
Natchez, MS	22,209
New Bedford, MA	98,478
New Orleans, LA	564,561
New York, NY	7,086,096
Norfolk, VA	266,874
Oak Park, IL	54,887
Oak Park, MI	31,537
Ogden City, UT	64,407
Oklahoma City, OK	427,714
Omaha, NE	328,557
Orem, UT	52,399
Paducah, KY	29,315
Parsippany-Troy Hills, NJ	49,868
Pawtucket, RI	71,204
Peoria, IL	122,261
Philadephia, PA	1,665,382
Phoenix, AZ	824,230
Pittsburgh, PA	414,936
Port Arthur, TX	61,195
Provo, UT	73,907
Reno, NV	106,748
Richmond, CA	74,676
Richmond, VA	218,237
Riverside, CA	174,023
Rochester, MN	57,855
Rockford, IL	138,334
Sacramento, CA	288,597
St. Louis, MO	437,354
St. Petersburg, FL	241,214
Salt Lake City, UT	163,859
San Antonio, TX	819,021
San Francisco, CA	691,637
San Jose, CA	659,181
San Juan, PR	522,700
Savannah, GA	145,699
Seattle, WA	490,077
Shreveport, LA	210,881
South Bend, IN	107,690
Spokane, WA	171,903
Stockton, CA	161,815
Sunrise, FL	39,681
Syracuse, NY	166,187
Tacoma, WA	161,351
Tampa, FL	276,413
Tempe, AZ	112,514
Terre Haute, IN	61,125
Toledo, OH	350,565
Topeka, KS	120,269
Torrance, CA	130,213
Trenton, NJ	92,124
Tucson, AZ	352,455

CITY	POPULATION
Tulsa, OK	375,300
Waltham, MA	58,200
Washington, D.C.	633,425
Waukegan, IL	67,653
West New York, NJ	39,194
Wilkes-Barre, PA	51,551
Wilmington, DE	70,195
Winston-Salem, NC	140,846
Worcester, MA	161,049
York, PA	44,619

Senator HECHT. Mr. Delaney.

STATEMENT OF HERB DELANEY, ALDERMAN, KANKAKEE, IL, NATIONAL LEAGUE OF CITIES

Mr. DELANEY. Thank you very much, Mr. Chairman.

My name is Herb Delaney, the alderman of Kankakee, IL. I also serve as chairman of the Community and Economic Development Policy Committee of the National Leagues of Cities [NLC].

Had I known it was permissible to show the kinds of pictures that Mayor Riley did, I think that may have been more appropriate, at least for my community, than going through a long speech. Unfortunately, you'll have to bear with me for a few minutes at least while I read a prepared statement. I will reduce my comments in my statement as much as I can. I'm sure you've heard quite a bit as it relates to the concerns of NLC, mayors, and elected officials of our Nation's cities.

The administration's fiscal year 1986 budget proposals call for significant changes in the operation as well as continuation of these programs. For the record, Mr. Chairman, I'd like to present the priorities for American cities, which was adopted by the board of directors of the National League of Cities yesterday, March 24, 1985.

Senator HECHT. It will be put in the record.

[The following information was subsequently submitted for the record:]

National
League
of
Cities

1301 Pennsylvania Avenue NW
Washington, D.C.
20004
(202) 626-3000
Cable NLCITIES

PRIORITIES FOR AMERICA'S CITIES

ADOPTED BY THE BOARD OF DIRECTORS OF THE NATIONAL LEAGUE OF CITIES

March 24, 1985

The elected leaders of America's municipal governments agree with the President and the Congress: The long run economic health and prosperity of this nation are dependent upon an immediate reduction, and eventual elimination, of the Federal budget deficit.

We believe that the Federal government must maintain a strong partnership in the domestic affairs of the nation. Deficit reduction must not outweigh the necessity of a sound progressive domestic policy. We believe that the deficit should not be reduced by simply cutting Federal domestic spending.

The National League of Cities proposes a deficit reduction package which includes the following items:

- an immediate across-the-board freeze in all non-needs- tested federal program spending, with the exception of the COLA (cost of living adjustment) to social security recipients, and an immediate freeze on the total of tax expenditures;
- an increase in revenues to pay for increases in program spending to assure a pay-as-you-go approach to the budget; and
- that any consideration of further cuts--below a freeze level--in any policy area not be limited to direct spending but also include tax expenditures and credit activities.

Adopting such an approach would allow us to reduce the Federal deficit by over $70 Billion in FY '86. This is a reasonable, responsible step toward elimination of the national deficit.

Policy is policy whether it is implemented through direct programs, tax expenditures, or credit activities. Therefore, budget and policy-making--whether for the purpose of deficit reduction or otherwise--must focus on the tax code and credit activities as well as on direct spending programs.

The opportunity afforded this nation's citizens, the prosperity of American business enterprise and the integrity and effectiveness of our systems of governance require attention to more than the deficit and national defense. Cleaning up the environment; improving housing; providing transportation; generating new jobs; helping the poor; providing good health care; assuring citizens of basic services; and protecting civil rights are appropriate, necessary and laudable policy objectives for a civilized "opportunity" society.

Shifting responsibility for achieving national domestic policy objectives to state and local government, and at the same time eliminating the federal assistance that has historically been provided and is necessary to achieve these objectives, is a federal mandate for state and local tax increases. Additionally, this shift to states and local governments of greatly varying resources and tax capacities perpetuates inequity of resources and services across the country. The costs of achieving national objectives should be borne by the nation as a whole and supported by the broadest possible revenue base.

While we strongly support a freeze at FY 1985 funding levels on all urban programs, the nation's municipal leaders identify the following as our top priority urban programs:

General Revenue Sharing

Community Development Block Grants

Urban Development Action Grants

Housing Assistance

Public Transportation

Wastewater Treatment Grants

Job Training Partnership Act

America's cities and towns have already sacrificed one-half of their federal aid in the cause of deficit reduction. Many programs no longer exist. We propose instead a fair and balanced program which outlines reasonable policy alternatives at the same time affirming our two-fold commitment to eliminating the deficit and pursuing sound, equitable and responsible national domestic policy.

Mr. Delaney. Thank you very much, Mr. Chairman.

I would like to discuss first some of the program reductions and changes in the broader sense and then spend a little more time on details of how the proposals specifically affect my city of Kankakee.

NLC SUPPORTS NEED FOR UDAG

First, on community development, NLC strongly opposes the proposed funding reduction in the Community Development Black Grant Program [CDBG] and the accompanying changes in the distribution between entitlement and nonentitlement communities. Under the administration's budget proposal, the Urban Development Action Grant Program [UDAG], currently funded at $440 million and authorized through fiscal year 1986 would be terminated. It is ironic that the same administration that last year touted UDAG as the perfect example of the public/private partnership would now call for its elimination for purely deficit reduction reasons, especially when the same administration is requesting to increase our deficits by proposing the urban enterprise zone legislation.

NLC strongly supports the continuation of UDAG and would like to submit for the record a copy of HUD's response to the Office of Management and Budget's proposal to eliminate UDAG. And I would like to present a copy of this response to that elimination, Mr. Chairman.

Senator Hecht. It will be a part of the record.

[The following information was subsequently submitted for the record:]

RESPONSE TO PROPOSED UDAG ELIMINATION

Prepared by PD&R Divisions of:
Policy Development
Community Development and Fair Housing
Economic and Public Finance

December 12, 1984

UDAG Focuses on the Development Needs of Distressed Cities

The UDAG programs is highly targeted to the most distressed cities. The program has been particularly successful in providing distressed cities with the assistance to make the structural changes needed to adjust to changing economic bases.

- Two-thirds of the large city UDAG dollars have gone to the top one-third neediest eligible distressed cities, based on impaction ranking. The program has become even more targeted over the past year with almost three-fourths of the funds going to the top one-third neediest cities.

- More than 60 percent of the large city UDAG funds have gone to commercial development activities, thus aiding distressed cities in adjusting to the loss of their manufacturing base.

- UDAG has provided distressed cities with funds to attract growth, rather than stagnant or declining business sectors to restructure their local economies. A substantial percent of UDAG commercial projects involve activities which are experiencing high rates of employment growth relative to all sectors of the economy. UDAG industrial projects tend to be in sectors experiencing high rates of growth in productivity.

- The UDAG projects in distressed cities represent private economic development investments that, in almost all cases, would not have occurred in these cities without UDAG assistance. The 1981 HUD study of the program found full or partial substitution of UDAG funds for private funds in about 20 percent of the projects sampled. However, since 1981, documentation requirements have been strengthened substantially and other administrative actions have been taken to sucessfully address the substitition issue. Although econometric studies have shown that, in general, Federal funds substitute for local funds that would have been used without Federal assistance, monitoring studies of specific programs have shown that the types of activities supported by the UDAG program, specifically larger scale economic development projects, would not likely be assisted with locally-generated revenue.

The program has provided assistance to 2,400 development projects in over 1,000 cities--2,400 public-private partnerships. The award of 440 million dollars, based on program experience in FY 1984, would have the following planned results for distressed cities:

- 50,000 new permanent jobs;
- 30,000 jobs for lower-income persons;
- 100,000 construction jobs;
- $40 million in local tax revenue
- $2 billion in private investment.

Lagging the Economic Recovery

The national economic recovery is not improving the lot of all cities. Distressed cities are experiencing much slower job growth than the nation as a whole, and the unemployment rate is dropping at a slower pace. Many of these cities continue to lose manufacturing jobs while exhibiting slow growth in non-manufacturing employment. The gap is widening between these cities and both their suburbs and the rest of the Nation. UDAG is not a countercyclical program; it is a structural program designed to assist distressed cities in adjusting to structural changes in the economy.

- UDAG eligible cities have had, and continue to have, higher unemployment rates than non-eligible cities and the U.S. as a whole since 1970. As of August 1984, the unemployment rate in all UDAG-eligible cities was 8.2 percent compared to 5.5 percent in the cities not eligible for UDAG and 7.4 percent in the U.S. as a whole. Among the most distressed of the UDAG-eligible cities (those which receive the maximum eligibility points), the unemployment rate was 9.9 percent.

- Approximately 80 percent of the 237 UDAG eligible cities for which HUD has metropolitan-level data are located in metropolitan areas that are lagging the economic recovery. Slow economic recovery is widespread among UDAG cities, affecting less distressed cities as well as more distressed cities.

- The gap in unemployment rates between the UDAG-eligible and non-eligible cities widened in the 1979-1984 period.

- All cities were hurt by the two recessions since 1980. However, the most distressed of the UDAG-eligible cities had both a larger increase in unemployment during the recessions and a less complete recovery since 1982. As a result, the net increase in unemployment from 1979 to May 1984 was slightly higher in the most distressed cities than in the other UDAG cities.

- Between 1980 and 1982, net firm births were two to three times greater in the least distressed areas than in the most distressed ones. Highly distressed areas experienced little growth or actual declines in both employment and number of firms.

Fiscal Capacity

Distressed cities do not have the fiscal capacity to deal with their problems. American Housing Survey and Census data show that housing, neighborhood, and economic problems are particularly severe among low income families and in distressed cities. Substantial need still exists in

the cities receiving UDAG funds. Housing and neighborhood problems and the concentration of disadvantaged groups continue to be problems for cities today, just as they were in 1980.

- Lower income groups (e.g., poverty, minority persons, female-headed households) are heavily concentrated in central cities, particularly the more distressed ones. These cities have been experiencing large increases in their lower income population since 1970. The most distressed of the UDAG-eligible cities had a poverty rate of over 19 percent in 1980, compared to a U.S. average of 12 percent. The situation has not improved since 1980; between 1980 and 1983, the poverty rate in all central cities increased by 2.6 percentage points.

- Moreover, the most distressed central cities are losing their most productive residents, diminishing their potential tax base and their capacity to promote community and economic development without outside assistance. These cities are losing population in all categories, but are losing their younger, wealthier, and more educated residents at a faster rate.

- Housing and neighborhood problems are much more severe in central cities, particularly the larger, distressed cities, than in suburbs and the U.S. as a whole. The incidence of each kind of housing problem is more than twice as large in central cities than suburbs; the incidence of each kind of neighborhood problem is more than one-and-a-half times as large.

- These cities not only have high concentrations of housing and neighborhood problems and disadvantaged groups; they also have higher tax burdens. UDAG-eligible cities had a tax burden in 1982 more than double that of the non-eligible cities. Furthermore, the tax burden in the most distressed of the UDAG-eligible cities was almost three times that of the non-eligible cities. The per capita taxes in these cities increased by 18 percent between 1980 and 1982. Any further increases in taxes required to offset reductions in Federal funds will drive out higher income residents,increase the tax burden on lower income residents, and further reduce these cities' competitiveness in retaining their job base.

- While some cities show surpluses, a large number do not. The Treasury Study that projects a large State and local government sector surplus by 1989 ignores the tremendous variation in the financial condition of cities across the country, particularly the most distressed cities. In addition, the study presents an exaggerated surplus figure by assuming that per capita expenditures remain at their 1983 levels until 1989 while per capita income, and therefore taxes, grow at a relatively rapid rate, and Federal grants to cities increase at a 5 percent annual rate.

- Cities with high levels of unemployment and poverty also experience higher costs and greater difficulty of raising capital. A number of the more distressed cities faced a decline in their bond ratings between 1980 and 1984. Low rated cities typically must pay about a 15 percent higher interest rate than high rated cities. This would mean that a $100 million 20-year bond issue would cost a low rated city over $27 million more in interest payments.

- The elimination of UDAG and as well as General Revenue Sharing and the reduction in CDBG, when combined with the tax reform proposals, would reduce State and local benefits by about $30 billion annually.

Mr. Delaney. This response factually makes one of the strongest cases for continuation of this important economic development to our distressed cities.

In a related matter, I would like to express our views regarding the current controversies surrounding the UDAG project selection system instituted by HUD in December 1983, to deal with the problem of having more technically fundable UDAG projects than there are available funds.

This situation reflects both the decrease in other Federal funds available for local development and the corresponding increase in the importance of UDAG.

At our annual meeting in Indianapolis, the NLC membership adopted a resolution which we believe will help address this problem, so as not to diminish the broad support for the UDAG Program that has existed over the years.

The resolution is based on the principles that, one, all cities that are eligible for UDAG should have some opportunity to obtain project funding, and, two, that UDAG should remain a fundamentally targeted program. Finally, three, that the UDAG Program should retain its flexibility and essential purposes.

In addition, we urge that in preparation for the reauthorization of UDAG in 1986, that Congress institute a study of eligibility and project award criteria for the UDAG Program, including an evaluation of the age of housing and other needs factors.

We believe it is important to maintain the UDAG Program as one of our most effective economic development programs and are prepared to work with the committee to retain the integrity, targeting, and provisions of the program while ensuring that all eligible UDAG communities have some reasonable opportunity to compete within the program.

On housing assistance, since 1981, the assisted housing programs have sustained the largest cuts of any domestic programs, a reduction of over 60 percent in new budget authority. In this regard, I would like to add that perhaps one of the most extraordinary changes over the past 4 years is the extent to which Federal urban policy, and most particularly Federal housing policy, has been dominated by Federal tax policy.

It is interesting to note that last year the Treasury estimated that the deficit was increased some $1.2 billion.

Senator Hecht. Mr. Delaney, can you summarize in the next minute, please?

Mr. Delaney. I can summarize. First, I would like to introduce, if I may, Mr. Chairman, a document on direct expenditure aspects of Federal housing policy.

[The following document was subsequently submitted for the record:]

National League of Cities

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Federal Housing Assistance: Who Needs It? Who Gets It?

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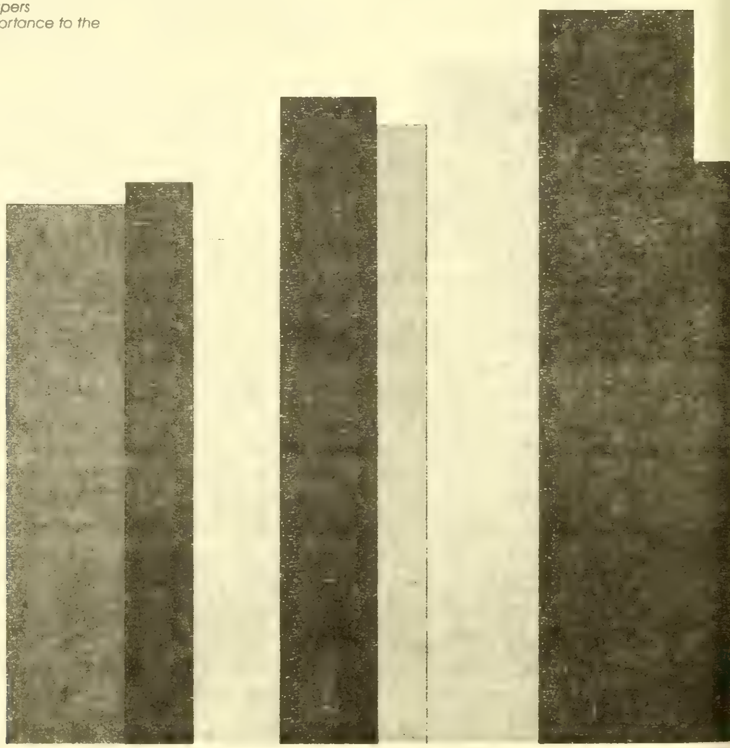

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FEDERAL HOUSING ASSISTANCE: WHO NEEDS IT? WHO GETS IT?

by

Cushing N. Dolbeare
Consultant on Housing and Public Policy

A Policy Working Paper
of The National League of Cities

National League of Cities
Washington, D.C. 20004

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PREFACE

On behalf of NLC's Board of Directors and member cities, we are pleased to present this excellent study of housing policy by Ms. Cushing Dolbeare.

The need for this report arose from policy discussions among the elected officials from NLC's member cities during 1984. Those discussions resulted in the adoption of a policy statement that was added to NLC's National Municipal Policy in November at our Annual Congress of Cities. Those policy positions are outlined in "A Note About NLC Housing Policy" by William Barnes.

The analyses in Dolbeare's report provide background for these NLC policies. We hope that this report will be useful to others in developing a broader view of federal housing policy and that the report will generate discussion and further investigation.

We invite comment on the policies that NLC has adopted and on the analyses presented in Dolbeare's paper. We look forward to working with all those concerned with housing policy on the important questions that are raised here.

Alan Beals
Executive Director
National League of Cities

William E. Davis, III
Director, Office of Policy
Analysis and Development

A Note About NLC Housing Policy

by

William R. Barnes
Senior Policy Analyst
National League of Cities

At NLC's Congress of Cities in Indianapolis, in November 1984, the membership of the National League of Cities added a new segment to its policy statement regarding housing. This additional policy statement, reproduced below, focuses on the housing policy dimensions of the federal tax code:

> Housing and the Tax Code
>
> Priority in federal housing assistance -- whether provided directly or through provisions in the tax code -- should be given to meeting the housing needs of people who could not otherwise obtain decent, affordable housing. The balance between monies devoted to low-income housing assistance and the homeownership provisions of the tax code should be reviewed.
>
> All federal housing assistance, including that which results from provisions in the tax code, should be considered in a housing policy context. As a step in that direction, we recommend that the President include in his budget request and the Congress include in its first budget resolution, an analysis of the distribution of all housing assistance among income classes.
>
> Revenues realized from changes in housing-related tax provisions and from housing expenditure programs should be used for production, rehabilitation, and housing allowances for low-income households.
>
> Until effective alternative housing supply and financing mechanisms are put in place, the present tax incentives for the production, rehabilitation, and maintenance of low-income housing should be retained.

To explain the analytic background for this policy and to stimulate discussion on what NLC regards as very important issues, we asked Ms. Cushing Dolbeare (Consultant on Housing and Public Policy) to provide the background paper which is presented here.

Adoption of the new policy statement in November culminated a year of discussions in NLC's Community and Economic Development Policy and Steering Committees. Those discussions dealt, on the one hand, with the need for low income housing assistance in cities and the status of federal housing programs. On the other hand, the discussions dealt with the treatment of housing in the federal tax code. When these two discussions merged, certain issues came clearly into focus and the new policy statement was the result.

This NLC policy contains two general principles. The first is that "priority in federal housing assistance, whether provided directly or through provisions in the tax code, should be given to meeting the housing needs of people who could not otherwise obtain decent housing". In other words, federal housing assistance should be targeted to need, regardless of the source or delivery mechanism. The second general principle is that "all federal housing assistance, including that which results from provisions in the tax code, should be considered in a housing policy context." Housing policy is housing policy whether it is manifested through direct expenditure programs, through the tax code or -- although the statement does not specifically mention it -- through credit activities of the federal government.

When these two general principles are brought together and applied as criteria to the existing patterns of federal housing assistance, some striking incongruities appear. These are detailed in Part 4 of Dolbeare's paper, and might be summarized in two statements: (1) the richer you are, the more likely you are to receive federal housing assistance and the more you are likely to get, and (2) the big money for federal housing assistance is delivered, not through the direct expenditure programs like public housing or Section 8, but through the tax code. It is based on the fact of these incongruities that NLC's statement goes on to say that "the balance between monies devoted to low income housing assistancee and the homeownership provisions of the tax code should be reviewed". Dolbeare's paper provides an analysis of the existing "balance".

The NLC statement goes on to suggest that the President should include in his budget request and the Congress should include in its first budget resolution an analysis of the distribution of all housing assistance among income classes. While it is true that this information is available in certain HUD documents, NLC's members concluded that putting such an analysis in more publicly salient documents -- documents whose owners are the elected officials of the federal government -- would focus more attention on it and help stimulate the discussions which are needed to move us toward the substantive recommendations made in the statement. This would be a step in the direction of a more systematic and inclusive federal housing policy.

Other steps need to be taken in this direction. The Department of the Treasury (with jurisdiction over the tax code) and the Department of Housing and Urban Development (ostensibly the housing

policy focus in the federal government) should find some way to bring their separate elements of housing policy together. Similarly, on Capitol Hill, the tax committees and the housing committees in the Congress need to find some ways to bring together the housing policy elements that are now held quite separate and distinct.

These views were recently elaborated in testimony by Councilmember Ruth Scott of Rochester, New York on behalf of NLC before the Subcommittee on Housing and Community Development of the Committee on Banking, Finance and Urban Affairs in the House of Representatives. Ms. Scott, who is a member of NLC's Board of Directors, said refering to the policy statement quoted above:

> The policy statement adopted by NLC demonstrates that city leaders, in increasing numbers, are realizing that the federal Treasury and Internal Revenue Service have come to dominate federal urban policy, virtually preempting other federal cabinet agencies. Similarly, in the Congress, the Senate Finance and House Ways and Means Committees have inadvertently become the preeminent urban policy makers in the fields of housing, economic development, transportation, energy, employment, health, income security, infrastructure, and municipal fiscal stability.
>
> In the past few years, the enormous federal deficit stretching out seemingly forever has led the Administration and Congress to reduce or freeze virtually all assistance programs to cities.
>
> . . . every direct assistance program to cities is under intense scrutiny and must overcome at least four obstacles (President's budget, first Congressional budget resolution, authorization action, and appropriations).
>
> With these reductions in both nominal and real dollars, there is less and less of a policy making role for cabinet agencies and Congressional authorizing committees.
>
> In contrast, provisions in the Internal Revenue Code which provide incentives for certain kinds of investment undergo little scrutiny. They are immune to policy considerations from the appropriate federal agencies and Congressional committees. They are immune to the Congressional budget process.
>
> Except in rare instances, tax incentives, or federal tax expenditures become indexed entitlement programs. That is, once a provision creating a

> certain kind of tax incentive is inserted in the code -- such as, for instance, the mortgage interest deduction -- the value of the revenue loss to the federal treasury is not subject to any policy review by HUD or the House or Senate Housing Subcommittees. The value is not subject to the concurrent budget resolutions. The value is not subject to the Congressional appropriations process. Moreover, because it is built into the tax system, it is a value which grows significantly faster than inflation . . . .
>
> City officials have assumed that federal urban policy is the job of HUD and the House and Senate Banking and Urban Policy Committees to set . . . . Yet, the opposite is increasingly the case.
>
> . . . . Consider an example. The U.S. Treasury has estimated that in 1984, federal housing tax expenditures for the mortgage interest deduction for vacation homes equalled $1.2 billion.
>
> Yet there is no evidence that anyone at HUD reviewed that expenditure and recommended that part of federal housing policy be to allocate $1.2 billion of assistance to Americans who could afford vacation homes. Similarly, no committee in Congress held hearings to determine if -- at a time when cities are faced with a growing problem of housing the homeless -- it was appropriate to provide these families, who can afford a second home, with this large a level of assistance -- a level, moreover, which has grown annually in every year without any review by any committee at the very time when the current Administration and Congress have said time and again that the federal government must take drastic action to reduce federal assistance for housing.
>
> As the role of direct assistance and policy making has declined, the role of tax policy and its impact on cities has become proportionately greater.

Scott's testimony also reflects another policy statement, adopted by NLC's members in November 1984, which treats the tax expenditure issue generally. It calls for joint referral of all tax expenditures to both authorizing and tax committees in the Congress. It also says that "each tax expenditure should annually be considered part of the total budgeted resources available in each program area" and that "each tax expenditure should have a sunset date" to encourage "careful oversight".

The NLC housing policy recommends a specific strategy that would begin to address the imbalance in the distribution of current federal housing assistance and to facilitate the interaction

between the tax and direct expenditure aspects of federal housing policy. The statement recommends that "revenues realized from changes in housing-related tax provisions and from housing expenditure programs should be used for production, rehabilitation, and housing allowances for low income households".

One mechanism for achieving such shifts of funds from the tax side to the expenditure side would be a "trust fund". Let us say, for example, that Congress enacted a restriction on the mortgage interest deduction for vacation homes. Treasury estimates that this would save $1.2 billion per year. All or some significant portion of these savings (i.e., increased revenues) could be earmarked into a Low Income Housing Trust Fund. The guidelines for the use of these Trust Fund monies would be the responsibility of the respective Banking Committees in the House and the Senate. Funding of such a Trust Fund could also include the imposition of a small capital gains tax imposed upon sellers of houses at the time of sale. Moreover, studies by David Rosen of program ideas for several states suggest that funding might also come from earmarking revenues from various housing-related escrow accounts into such a Trust Fund.

Finally, the NLC statement adopts a tactical approach to the tax incentives now in place for the production, rehabilitation, and maintenance of low income housing. It says that "until effective alternative housing supply and financing mechanisms are put in place" the present tax incentives should be retained. This position is based on the view that the present tax incentives for low income housing may not be the most efficient way to deliver this assistance, but that they should be retained until such time as effective alternatives are securely in place with adequate funding.

Assuming that such replacements would be direct expenditure programs, this amounts to a recommendation for "buying out" the low income housing provisions of the tax code. The Trust Fund idea might be viewed similarly. For those who feel that the tax code should be a means of raising revenue, not be a vehicle for policy, such a "buying out" approach might be the way to build a long term consensus around eventual tax reform, on the one hand, and adequate policy, on the other hand.

The policy adopted by the National League of Cities in November 1984 is a permanent policy unless amended. It sets a direction for NLC's advocacy and also for further NLC policy development. Specific definition of NLC positions on the multitude of practical policy and program questions that this statement engenders will come -- as this statement did -- from NLC's standing policy process, which involves city officials from across the country in year-round discussions of important urban policy questions.

FEDERAL HOUSING ASSISTANCE: WHO NEEDS IT? WHO GETS IT?

A Policy Working Paper for the National League of Cities

by

Cushing N. Dolbeare
Consultant on Housing and Public Policy

EXECUTIVE SUMMARY

Adequate, affordable housing is a basic human need. The major thesis of this paper is that all federal housing expenditures, whether made as direct payments or in the form of "tax expenditures" -- should be treated together as expressions of federal housing policy. When this is done, the balance of these subsidies in the light of the nation's housing needs must be addressed. The paper provides background information to begin the process.

Who Needs Housing Assistance? The vast majority of households living in inadequate housing or paying more than they can afford for shelter are poor. In 1981 there were 3.0 million seriously inadequate units and another 4.7 million units with significant deficiencies. By these measures, 9.3% of the housing stock is inadequate. An even larger number of households was paying more than they could afford for shelter. A total of 7.2 million owners and renters, 11.4% of all households for whom this data was reported, paid more than half of their incomes for shelter.

Roughly two thirds of all American households are home owners. Home ownership has been, and remains, a strong aspiration for many renters. As income rises, the proportion of owners increases. In 1980, 44% of the lowest income households were owners, compared with 93% of the highest income households. Median owner income was almost twice median renter income. However, there are almost as many owners as renters with incomes below $10,000, and substantially more owners than renters with incomes between $10,000 and $20,000.

Most low income renter households have very high rent-income ratios. In 1980, 62% of the 2.7 million renter households with incomes below $3,000 annually paid more than 60% of their incomes for rent, as did 30% of households with incomes between $3,000 and $7,000. Only a small proportion of low income renter households live in affordable units and the proportion of renters in affordable units rises with income.

Most low income renter households live in private rental housing, without federal subsidies. At 25% of income, a household with an income of $5,000 can afford only $104 monthly for rent, including utilities. There are twice as many households with incomes below $5,000 as there are affordable units in the housing inventory. Fewer than one fifth of the renter households eligible for and needing assistance are now living in federally subsidized housing.

Types and Distribution of Federal Housing Assistance. The major direct federal housing programs are provided either through the Department of Housing and Urban Development (HUD) or, in small cities and rural areas, through the Farmers Home Administration (FmHA) of the U.S. Department of Agriculture. The emphasis of federal low income programs has been on the provision of rental housing. As of the end of 1984, approximately four million households were receiving direct assistance through HUD's programs. In addition, almost three quarters of a million households in small towns and rural areas lived in housing subsidized, primarily with interest credits, by the Farmers Home Administration. By far the largest federal housing subsidies, however, both in cost to the Treasury and in number of recipients, are those provided through the tax code.

Since 1981, authorizations for additional federal low income housing assistance have declined sharply. They will go almost to zero if the Administration's 1986 budget proposals are adopted. Housing payment and operating subsidy outlays for occupied units have increased somewhat as additional units -- authorized earlier -- have been completed and occupied. Meanwhile the cost of housing-related provisions of the tax code has risen sharply.

In 1981, budget authority (as initially contained in the 1981 HUD appropriation, before cuts and rescissions) for low income housing was $30 billion, outlays for housing payments and operating subsidies for all units under HUD subsidy were $5.7 billion and the estimated cost of housing-related tax expenditures was $33.3 billion. The Administration's budget for 1986 calls for only $0.5 billion in budget authority for low income housing and $10.4 billion in outlays. Housing-related tax expenditures are estimated at $45.6 billion. Roughly 90% of the cost of the housing provisions of the tax code are accounted for by homeowner deductions of mortgage interest and property taxes and deferral or exclusion of capital gains on home sales.

The homeowner provisions in the tax code were not, with the exception of the capital gains provisions, inserted in order to provide assistance for home ownership. On the contrary, they are the result of a definition of income, which excluded interest and state and local tax payments, which was included in the tax code when it was first enacted in 1913, having been carried over from

an emergency income tax enacted during the Civil War. Until the broadening of the tax base and the rise in home ownership following World War II, this definition had little impact.

Upper income people receive a disproportionate share of total federal housing expenditures. In 1981, one quarter of all households had incomes below $10,000, but they received only one-eighth of all federal housing assistance (direct and through the tax code). Lower middle income households -- 27% of all households -- received only 7% of all housing assistance. At the other end of the income distribution, one quarter of all federal housing assistance went to the 7% of all households with incomes above $50,000 and 43% of the assistance went to the 20% of households with incomes between $30,000 and $50,000.

The proportion of households receiving federal housing assistance, either directly or through tax expenditures, rises as income increases. Only about one eighth of taxpayers with incomes below $10,000 receive housing assistance, and about half of this assistance is direct (that is, federal housing assistance payments on behalf of these households to owners of subsidized units). About one fifth of all taxpayers with incomes between $10,000 and $20,000 receive housing assistance, primarily through the tax code. In contrast, two thirds of all taxpayers with incomes between $30,000 and $50,000 and more than four-fifths of those with incomes above $50,000 receive housing assistance through the tax code.

Moreover, the average amount of assistance per household rises with income. In 1981, the average amount of federal housing expenditures per household was $10.40 per household per month for households with incomes under $10,000, rising to $155.54 per household per month for households with incomes above $50,000.

There is a myth that low and middle income homeowners are the chief beneficiaries of homeowner deductions. The facts do not support this. Although about two thirds of all households are home owners, only 28% of the tax returns filed in 1981 claimed homeowner deductions. This was primarily because the majority of taxpayers do not itemize their deductions. Most low income owners own free and clear, so they do not have mortgage interest deductions to claim. For others, incomes and marginal tax rates are so low that it does not pay them to do so. Therefore, they do not benefit from the homeowner provisions.

The magnitude of the subsidy imbalance is such that a more equitable approach to federal housing assistance could provide a substantial portion of the funds needed to deal effectively with the critical housing needs of low income people.

The first step in dealing with the problem of the imbalance of federal housing subsidies is to define the appropriate objectives for federal housing policy and programs. Then, both tax and direct expenditures should support these objectives. Given the magnitude of housing needs, it should be axiomatic that federal housing assistance should be directed toward providing decent, affordable housing for those who cannot not obtain or retain it in any other way.

CHAPTER ONE

INTRODUCTION

Adequate, affordable housing is a basic human need. The housing sector also plays an important role in the economy. For these reasons, the federal government -- for more than half a century and in a variety of ways -- has been involved in the financing and production of housing and in assisting people to obtain decent housing at affordable costs.

Federal activities related to housing have been variously motivated and have had numerous effects. The public housing program, for example, was motivated in large part by the need to provide jobs during the depression of the 1930's. Since the end of World War II, a number of efforts have been made to stimulate the economy through federal housing stimulus programs. The development of federal mortgage insurance programs, also initiated during the depression, has changed the entire nature of financing home purchases and has assisted in a major expansion of home ownership. These insurance programs have been augmented by an array of federal credit programs directly or indirectly supporting the construction or purchase of housing. Finally, the Internal Revenue Code has had a major impact both on the nature of the housing market and the way in which housing is provided. Some of these tax provisions were inserted in the tax code in deliberate efforts to stimulate housing activities; the housing consequences of others, although major, appear to have been unintended.

Over the past few years, some of these federal housing activities have been subjected to careful scrutiny by both Congress and the executive branch as part of efforts to reduce federal spending. As a result, funding for the direct spending programs has been reduced greatly. But the housing-related tax expenditures have avoided such scrutiny and reduction.

The major thesis of this paper is that all federal housing expenditures should be treated together as expressions of federal housing policy. When this is done, the balance of these subsidies in the light of the nation's housing needs must be addressed.

This paper provides background information to begin the process of reviewing the patterns of federal housing expenditures. It describes briefly the nature of housing needs in the United States and contrasts this with the amount and distribution of federal housing assistance. The foci are direct spending and "tax subsidy" expenditures and low income housing needs, which are the most persistent and urgent of the nation's housing problems.

CHAPTER TWO

WHO NEEDS HOUSING ASSISTANCE?

There are a number of ways of assessing the need for housing assistance. For many years, housing quality was the dominant concern. In 1940, when the first housing census was taken, almost 40% of the occupied dwelling units in this country were either dilapidated or lacked basic plumbing facilities. While there is no strictly comparable measure available today, it is clear that the proportion has dropped to less than 5%. Even so, in 1980, some 2.2 million households lived in units that were either overcrowded or lacked some or all basic plumbing facilities.

More complete data on housing quality is now reported in the American (formerly Annual) Housing Survey as well as in the U.S. Census of Housing. Unfortunately, however, since many units contain more than one defect, it is impossible to estimate the number of seriously inadequate units from the published data. However, a special tabulation by HUD found that in 1981 there were 3.0 million seriously inadequate units and another 4.7 million units with significant deficiencies. By these measures, 9.3% of the housing stock is inadequate.

An even larger number of households was paying more than they could afford for shelter. A total of 7.2 million owners and renters, 11.4% of all households for whom this data was reported, paid more than half of their incomes for shelter. (This, and other data in this section is contained or derived from the 1980 Annual Housing Survey conducted by HUD and the Bureau of the Census.)

The vast majority of households living in inadequate housing or paying more than they can afford for shelter are poor. This paper focuses primarily on low income as a measure of the need for housing assistance both because the disparity between the cost of shelter and the income available for shelter is so great, and because it lies at the root of most other housing problems. For example, it is impossible to build or rehabilitate housing for low income people without substantial subsidies. And, because of construction and rehabilitation costs, these needs cannot be met through approaches based on income support alone. It should be noted, moreover, that there are other persistent housing problems which need continued exploration and attention even though they are outside the scope of this paper: the housing problems of special groups, such as elderly people or people with disabilities, farm workers, and large renter households; the supply, location and availability of housing; and housing discrimination.

Roughly two thirds of all American households are home owners, and home ownership has been, and remains, a strong aspiration for many renters. As income rises, the proportion of owners increases. In 1980, 44% of the lowest income households were owners, compared with 93% of the highest income households. Median owner income was almost twice median renter income. (See Table 1.)

Table 1

Income of U.S. Households by Tenure, 1980
(Households in thousands)

Income	Owners	Renters	% Owners
Under $3,000	2,155	2,748	44.0%
$3,000-$6,999	5,750	6,479	47.0%
$7,000-$9,999	4,367	3,862	53.1%
$10,000-14,999	7,217	5,553	56.5%
$15,000-$19,999	6,977	3,672	65.5%
$20,000-$24,999	6,707	2,263	74.8%
$25,000-$34,999	9,814	1,984	83.2%
$35,000-$49,999	6,002	699	89.6%
$50,000-74,999	2,445	207	92.2%
Over $75,000	1,082	88	92.5%
TOTAL	52,516	27,556	65.6%
Median	$19,800	$10,600	--

Source: Annual Housing Survey, 1980, Part C.

The large number of middle and upper income home owners has tended to mask the existence of a substantial number of low and moderate income owners. As Chart 1 shows, however, there are almost as many owners as renters with incomes below $10,000, and substantially more owners than renters with incomes between $10,000 and $20,000.

The correlation between income and housing need is less direct for owners than for renters. A substantial proportion of low income owners have paid off their mortgages. Not only do they have the equity in their homes, but their housing costs are primarily for utilities, insurance, repairs and taxes (which are also lower in many jurisdictions for low income owners).

Nevertheless, it is clear that many low income owners have significant housing needs. For example, in 1980, there were 2.2 million owner households paying more than 50% of their incomes for shelter. Almost 85 percent of these households had incomes below $10,000.

Unfortunately, however, the housing needs of low income owners remain a neglected area of both policy analysis and program support. In part because of lack of data and in part because the housing needs of low income renters are clearly more intense, the remainder of this analysis will focus on the housing problems of renters.

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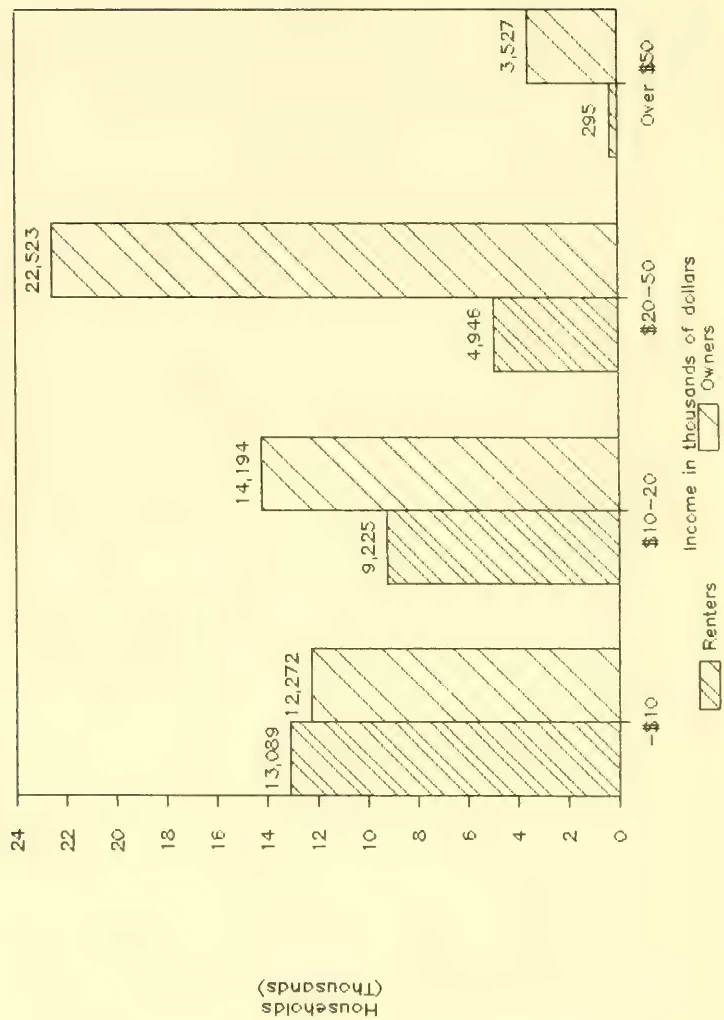
CHART 1

TENURE AND INCOME, 1980



<u>Only a small proportion of low income renter households live in affordable units, while the proportion of renters in affordable units rises with income.</u>

In 1980, 86% of renter households with incomes below $3,000 paid more than one quarter of their incomes for rent, as did 81% of households with incomes between $3,000 and $7,000, and 72% of households with incomes between $7,000 and $10,000. The situation for people at the bottom of the income scale was so critical that 62% of the 2.7 million renter households with incomes below $3,000 (10% of all renters) annually paid more than 60% of their incomes for rent, as did 30% of households with incomes between $3,000 and $7,000.

Fewer than one quarter of all renter households with incomes below $10,000 in 1980 paid less than 25% of their incomes for rent. About half of the households with incomes between $10,000 and $15,000 paid less than 25%, as did three-quarters of all households with incomes between $15,000 and $20,000. Chart 2 shows the 1980 figures for total renter households, by income group, and the number living in units at rent-income ratios of 25% or less.

On the other hand, more than nine tenths of all renter households with incomes above $25,000 were living in units which cost them less than 25% of their incomes. The contrast between households paying less than one quarter of their incomes for rent and those paying more than half is shown in Chart 3. (The figures are for gross rents, inclusive of utilities, and have been adjusted to include units on which no data was reported by the Annual Housing Survey.) Table 2 below provides additional details.

Table 2

<u>Rent-Income Ratios, by Income, U.S., 1980</u>
(Households in thousands)

Income (in thousands)

	-$3	$3-7	$7-10	$10-15	$15-25	$25+	Total
Number							
-25%	382	1,248	1,066	2,732	4,751	2,780	12,961
25-34%	279	981	1,213	1,836	909	135	5,353
35-49%	263	1,488	1,103	740	186	32	3,812
50-59%	130	816	261	111	25	7	1,351
60%+	1,694	1,946	218	133	64	24	4,078
TOTAL	2,748	6,479	3,862	5,553	5,935	2,978	27,556
Percent							
-25%	13.9	19.3	27.6	49.2	75.4	87.6	47.0
25-34%	10.2	15.1	31.4	33.1	18.8	9.6	19.4
35-49%	9.6	23.0	28.6	13.3	4.2	1.5	13.8
50-59%	4.7	12.6	6.8	2.0	0.4	0.4	4.9
60%+	61.6	30.0	5.6	2.4	1.2	0.9	14.8
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0

CHART 2

RENTERS IN AFFORDABLE UNITS, 1980

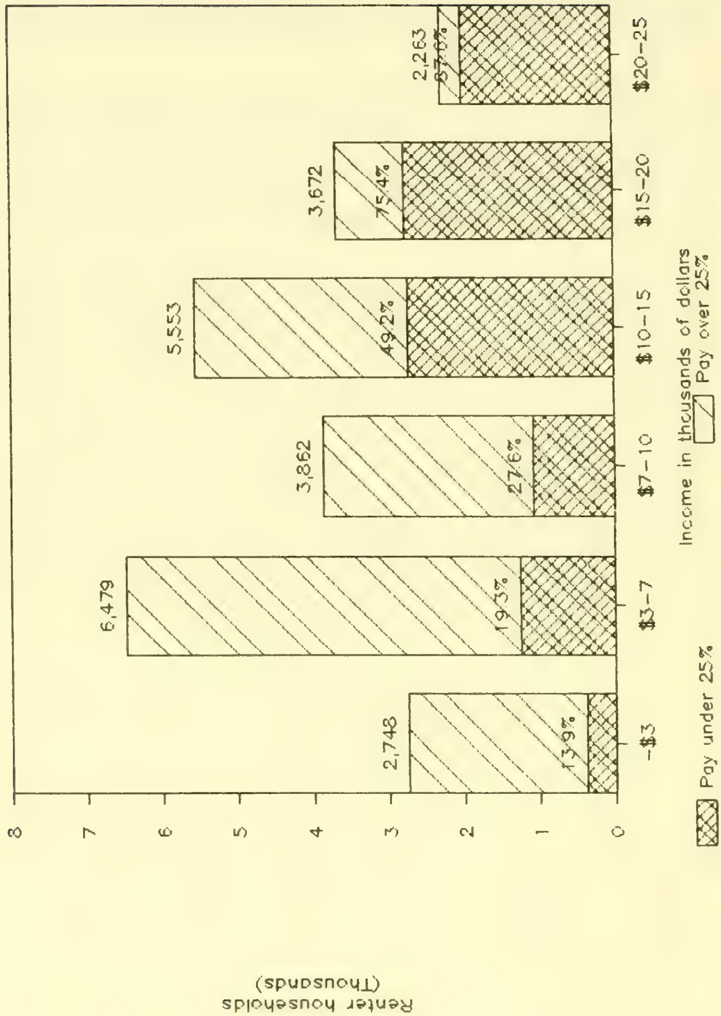
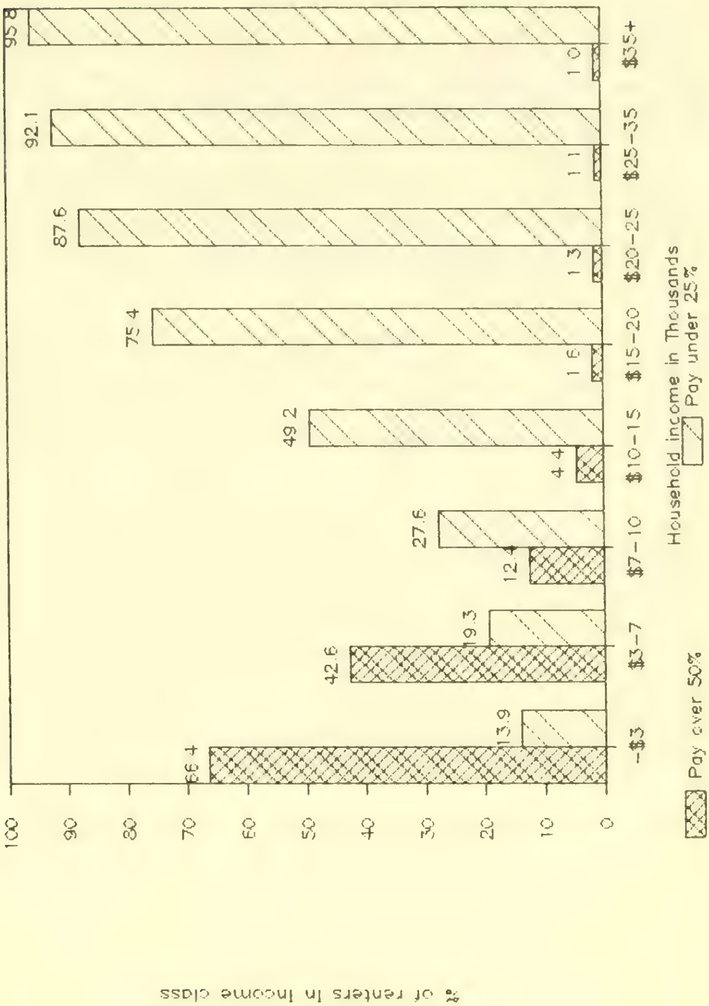


CHART 3

CONTRASTING RENT–INCOME RATIOS

by income class, 1980



The foregoing figures are based on 25% of income rather than the 30% now used for federal housing subsidy programs for two reasons: (1) 25% is still the accepted rule of thumb -- used by the National Association of Realtors and others -- for affordability, and the 30% figure was clearly adopted as a way of reducing both the subsidy and the differential between percent of income paid for rent by subsidized and unsubsidized households; and (2) the Bureau of the Census' Annual Housing Survey figures lump together households paying 25-34% of income for gross rent and would require extrapolation to base affordability estimates on 30% of income. If the latter were done, the number of households living in affordable units would obviously increase, but the pattern of lower income people being predominantly those in "unaffordable" units would be sharper.

The reason so many low income households pay so much of their incomes for rent is simple: without subsidy, it is impossible to provide housing at rents which very low income people can afford. At 25% of income, a household with an income of $5,000 can afford only $104 monthly for rent, including utilities. At $7,000, a household can afford $146; at $10,000, the level rises to $208. Except for subsidized housing, it is impossible to provide decent units at these costs.

<u>There are twice as many households with incomes below $5,000 as there are affordable units in the housing inventory</u>. Table 3 below compares renter households and affordable units. It shows, by income class, the number of renter households. It then shows, for 25% and 30% of income respectively, the affordable rents for each range and the estimated number of rental units in these ranges. Chart 4 shows the information for households and units renting for 25% of their incomes. This comparison between low income households and low rent units, stark as it is, understates the affordability problem because a high proportion of these low-rent units are occupied by higher income households paying far less than 25% of their incomes for them.

CHART 4

RENTER HOUSEHOLDS AND UNITS RENTING

WITHIN 25% OF INCOME, 1980

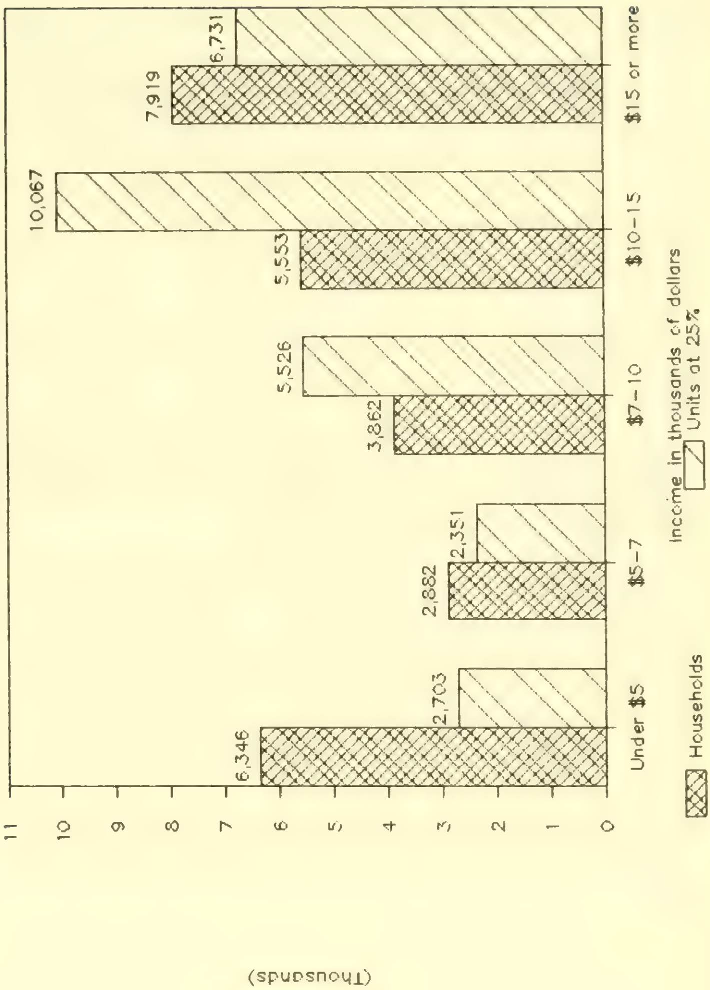


Table 3

Comparison of Renter Households and Rental Units, 1980
(Numbers in thousands)

	Less than $5,000	$5,000 to $6,999	$7,000 to $9,999	$10,000 to $14,999	$15,000 or more
Renter Households	6,346	2,882	3,862	5,553	8,913
Affordable rent at 25%	under $104	$105-146	$147-208	$209-313	$313+
Estimated units at 25%	2,703	2,351	5,526	10,067	6,731
Gap or surplus	-3,643	-531	1,664	4,514	-2,182
Affordable rent at 30%	under $125	$126-175	$176-250	$251-375	$376+
Estimated units at 30%	3,620	3,533	7,587	9,070	3,682
Gap or surplus	-2,726	651	3,725	3,517	-5,233

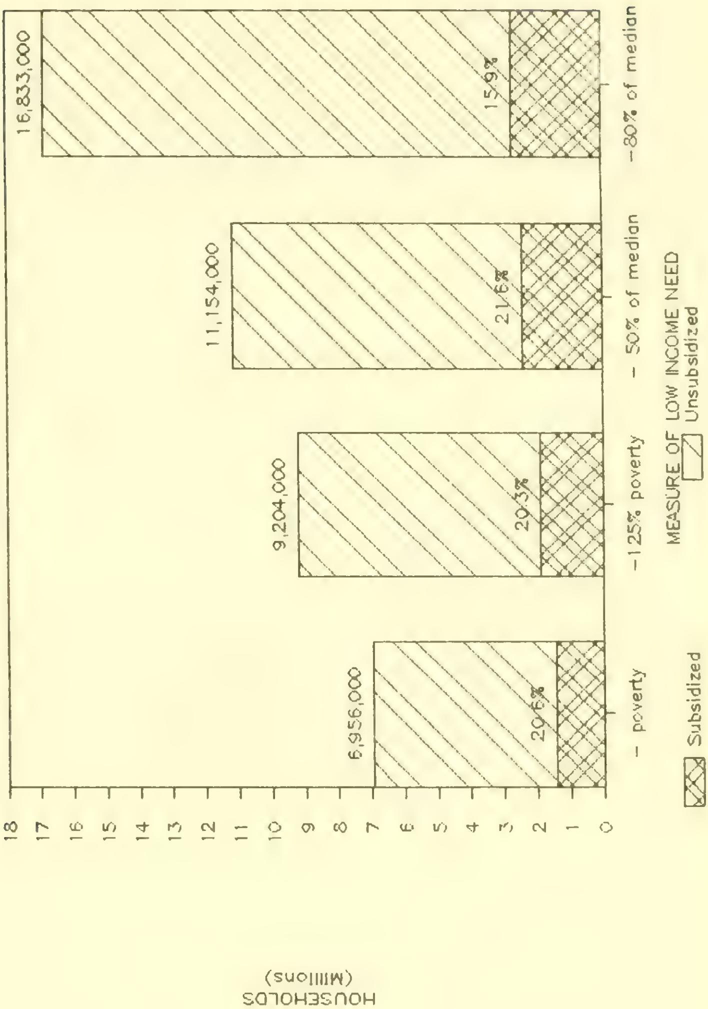
Most low income renter households live in private rental housing, without federal subsidies. Only a small proportion of households eligible for and needing assistance are now living in federally subsidized housing. By whatever measure of need is used, about four fifths of all low income renter households are unable to obtain federal housing assistance.

There are a number of ways of estimating the number of low income households needing housing assistance. One commonly used measure of low income need is the poverty level. A slightly higher standard is 125% of the poverty level. Neither of these criteria has traditionally been used as a measure of need or eligibility for housing assistance. Instead, the Housing and Community Development Act of 1974 set 80% of median family income, as defined by HUD, as the limit for the Section 8 program and defined households with incomes below 50% of median as "very low income." Both of the housing standards include more households than the poverty measures. While none of these threshholds correlates exactly with need, it is significant that the President's Commission on Housing, appointed by President Reagan in 1981, found that three quarters of all renter households with incomes below 50% of median were living in substandard housing, paid more than they could afford for shelter, or both. The other quarter lived in assisted housing. (The President's Commission on Housing, Interim Report, October 1981.)

CHART 5

LOW INCOME RENTER HOUSEHOLDS

BY VARIOUS MEASURES OF NEED, 1980



Regardless of the measure used, only a small proportion of renter households -- after almost half a century of federal low income housing assistance -- are actually receiving it. Only 16% of renters with incomes below the poverty level were living in subsidized housing in 1980. Only 22% of "very low income" renter households and only 15% of "low income" renter households", as defined by HUD, occupied subsidized housing. Chart 5 and Table 4 show the estimated number of renter households under each of these four measures of need in 1980. (The numbers would be roughly doubled if homeowners were included.) The bottom portion of each bar in Chart 5 shows the proportion of renter households living in subsidized housing.

Table 4

Renter Households by Selected Measures of Need, 1980
(Households in thousands)

	Below poverty level	Below 125% of poverty	Below 50% of median	Below 80% of median
Renter households	8,956	9,204	11,154	16,833
In subsidized housing	1,430	1,888	2,405	2,680
Not in subsidized housing	7,526	7,316	8,749	14,153
% in subsidized housing	16.0%	20.5%	21.6%	15.9%

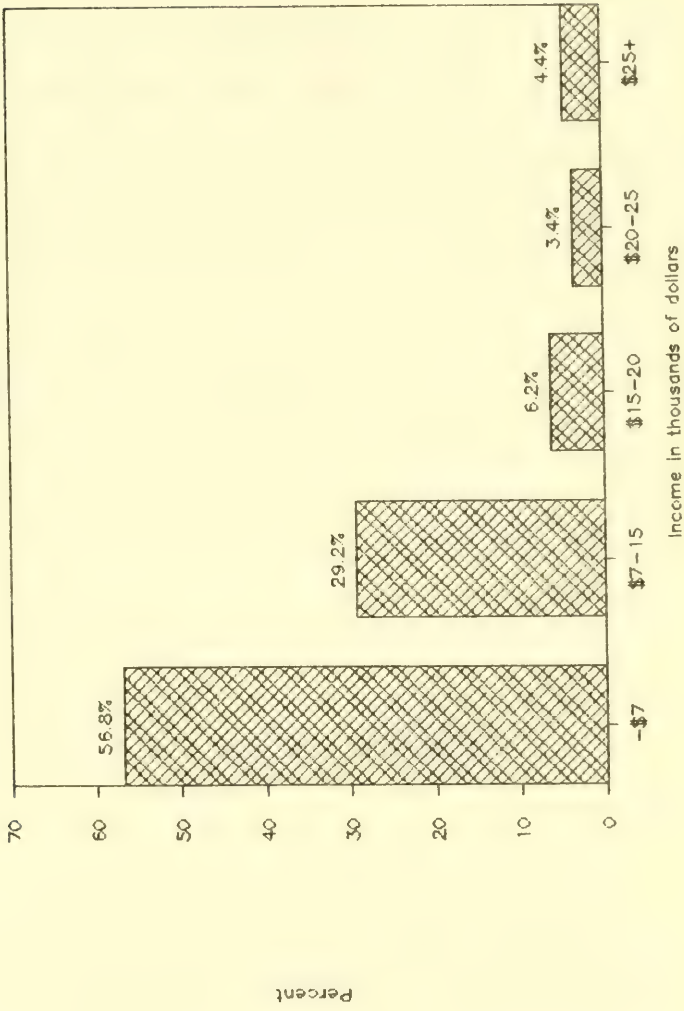
The inability to pay what decent housing costs is reflected not only in the growing number of homeless people and those who fail to pay their rents. It is also reflected in poor housing quality. Although there are almost twice as many owners as renters, more than 63% of all substandard or overcrowded housing was occupied by renters in 1980. And, as Chart 6 shows dramatically, almost three fifths of the renter households living in substandard or overcrowded housing in 1980 had incomes below $7,000. Most of the rest had incomes between $7,000 and $15,000. (The picture for owners is similar: half of the owner households in substandard or overcrowded housing had incomes below $7,000, and almost 90% had incomes below $20,000.)

Given this picture of low income housing needs, what assistance is being provided?

CHART 6

INCOME OF RENTERS IN SUBSTANDARD UNITS

1980



CHAPTER THREE

TYPES OF FEDERAL HOUSING ASSISTANCE

Federal assistance to housing is provided in several major ways: through programs which provide subsidy payments to housing owners; through flexible programs, such as the community development block grant (CDBG) program, where local governments determine the use of funds and apply them to improving housing; through the provision of credit or loan guarantees; and through various provisions of the tax code.

This paper is concerned with the two major types of federal spending for housing: those provided through direct subsidy payment programs and those provided through the tax code. The technical term for the latter is "tax expenditure," a term used by William Simon and Milton Friedman about fifteen years ago.

The Congressional Budget Act of 1974 began to address the issue of the cost of tax expenditures by requiring a listing of all tax expenditures in the Federal budget. These listings have since been contained in a Special Analysis which is an integral part of the President's annual budget proposal. The following explanation appears in Special Analysis G: Tax Expenditures for Fiscal Year 1984:

> The Congressional Budget Act of 1974 (Public Law 93-344) requires a listing of "tax expenditures" in the Budget. The act defines "tax expenditures" as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of liability." The definition of tax expenditures used in this analysis is based on the distinction between the "normal" or "reference" provisions of the tax structure needed to make the tax operational, and the "special" provisions that are exceptions to the reference tax provisions. Such exceptions are designed to further other objectives, such as health care, export promotion, or employment of the handicapped. Their operation is, therefore, comparable to outlay programs, such as milk price supports and rent subsidies that also provide a subsidy to particular activities. For this reason, the expressions "tax subsidies" and "tax expenditures" are often used synonymously. Because the term "tax subsidies" is somewhat more descriptive than "tax expenditures," the former will be used in the remainder of this analysis.
> (Executive Office of the President, Office of Management and Budget, Special Analyses: Budget of the United States Government, Fiscal Year 1984, p. G-1. Emphasis added)

Estimates of the cost of tax expenditures are available from three major sources: the OMB budget documents, the Congressional Budget Office, and the Joint Committee on Taxation. Unless otherwise noted, the figures in this memorandum are taken from relevant OMB budget documents. In addition, the Department of Housing and Urban Development, in its annual housing production (formerly housing goal) reports, breaks down the homeowner tax expenditures by income groups. These figures have been used here to estimate the cost of tax expenditures. It has been necessary to make some assumptions on the distribution of costs by income group in order to make estimates of the distribution of other direct and tax expenditures for housing assistance. To the extent that these assumptions bias the results, they overestimate expenditures for lower income people and underestimate expenditures for upper income people.

It should be noted that the provisions of the tax code have important interrelationships with each other, so that repeal of any one provision -- or even any combination of provisions -- would not result in recouping the full cost of those provisions to the Treasury. Thus, while it is possible to identify the amount of tax expenditures and estimate their distribution by income group, the task of estimating revenue which would be generated by any changes is more complex. This is also true, to a lesser extent, of direct expenditures. For example, as housing assistance is cut back and homelessness increases, additional resources are going into aid for the homeless, including not just shelter but food and health care.

The major direct federal housing programs are provided either through the Department of Housing and Urban Development (HUD) or, in small cities and rural areas, through the Farmers Home Administration (FmHA) of the U.S. Department of Agriculture. The emphasis of federal low income programs has been on the provision of rental housing. Despite the large number of low income owners, referred to above, there is only one very small federal subsidy program (the very low income repair loan and grant program of the Farmers Home Administration) that directly addresses the housing needs of very low income owners. Two other federal programs, one in HUD (the now-terminated 235 program) and one in FmHA (the 502 program) , do subsidize interest rates for home purchases by people with somewhat higher incomes. In addition, many communities use substantial portions of their CDBG funds for rehabilitation, much of it by low income owners.

As of the end of 1984, approximately four million households were receiving direct assistance through HUD's programs. Outlays for housing payments and public housing operating subsidies to support these units totalled $9.9 billion.

Table 5

Households Living in HUD-Assisted Housing as of September 30, 1984

	Households	Outlays (in Millions)
Section 8	1,909,812	$ 6,030
Public Housing	1,331,908	2,821
Section 236 (net)	352,620	658
Rent supplements	55,606	110
Subtotal, rental units	3,649,946	9,619
Section 235 home ownership	209,730	270
GRAND TOTAL	3,859,676	9,889

In addition to the 3.8 million households living in HUD-subsidized lower income housing, there are almost three quarters of a million households in small towns and rural areas living in housing subsidized, primarily with interest credits, by the Farmers Home Administration. (Information obtained from the Housing Assistance Council.) Because of the way Farmer's Home programs are funded, it is impossible to provide comparable figures for the 1984 cost of these units. Most FmHA units are financed through loans from the Rural Housing Insurance Fund, which lends money at below-market interest rates. Each year, the fund is reimbursed for losses and some expenses incurred two years previously (the time lag is to permit calculation of the amount based on actual experience). These FmHA loans are supplemented by some grant funds, primarily for rural rental assistance, farmworker housing, and very low income home repairs. Most of the FmHA activities, since they do not involve direct federal subsidy payments, are "off-budget."

Table 6

Households Living in Farmer's Home Subsidized Housing As of September 30, 1984

502 Home Ownership with interest credits	396,536
504 Very low income repair loans or grants	28,914
Subtotal, homeowners	425,450
515 subsidized rental housing	294,500
514/516 farm labor housing	15,000
Subtotal, rental units	309,500
GRAND TOTAL	734,950

By far the largest federal housing subsidies, however, both in cost to the Treasury and in number of recipients, are those provided through the tax code. In fiscal 1984, the cost to the Federal Treasury of housing-related tax expenditures was estimated by the Congressional Joint Committee on Taxation at $43,665 trillion, based on information provided by the Treasury Department and the Congressional Budget Office (CBO). No current information is available on the number of taxpayers benefitting from these deductions. The 1984 housing-related tax expenditures, as estimated by the Joint Committee using a more inclusive definition of tax expenditures than OMB (and thus obtaining higher cost estimates), are listed in Table 7.

Table 7

Housing-Related Tax Expenditures, 1984
(in millions of dollars)

Historic structure preservation	$ 320
Tax exempt rental housing bonds	1,275
Mortgage revenue bonds	1,785
Accelerated rental hsg depreciation	815
5-year amortization of low income housing rehab	60
Subtotal, investor deductions	4,255
Mortgage interest	23,480
Property taxes	8,775
Capital gain deferral	4,895
Capital gain exclusion	1,630
Residential energy credits	630
Subtotal, homeowner deductions	39,410
TOTAL	$43,665

Although some of the major housing-related tax expenditures contained in the Internal Revenue Code were enacted with termination dates (so they must be extended from time to time), none have been subjected to the kind of review and decision-making by either Congress or the executive branch that accompanies requests for direct housing outlays and budget authority. Moreover, the tax expenditures which have been given attention over the past several years, as Congress has endeavored to raise revenues by closing "loopholes," have been primarily those tax incentives designed to stimulate investment in housing. The major housing expenditures, however, are the homeowner deductions, which dwarf all other housing expenditures, either direct or through the tax system.

CHAPTER FOUR

THE DISTRIBUTION AND COST OF FEDERAL HOUSING ASSISTANCE

Direct federal spending for housing assistance is measured in two ways: (1) outlays or housing payments to support the roughly 4 million units now receiving subsidy and (2) budget authority to extend assistance to an additional number of households.

Outlays or housing payments are a largely uncontrollable expense. Most assisted housing is subsidized under contracts which obligate the federal government to make payments over a five- to forty-year period. Basically the payments cover capital and financing costs, along with some operating assistance.

Budget authority for additional housing assistance is the total federal commitment for future subsidy payments under the assistance contracts. The Congressional Budget Act requires that budget authority for assisted housing be calculated as the maximum annual payment times the number of years of the subsidy contract. Thus, budget authority estimates make low income housing programs appear to be enormously expensive because they represent multi-year commitments. It is equivalent to the cost to an individual purchasing a home with a 15 or 20 year mortgage, if that cost, instead of being calculated as the price of the home, were calculated by including all the principal, interest, taxes, maintenance, utilities and other expenses for the full term of the mortgage. Most new houses would cost well over $300,000 if calculated that way.

Authorizations for additional federal low income housing assistance have declined sharply since 1981 and will go almost to zero if the Administration's FY 1986 budget proposals are adopted. Housing payment and operating subsidy outlays for occupied units have increased somewhat as additional units have been completed and occupied. But the cost of housing-related provisions of the tax code continued to rise, using OMB's estimates (which are substantially below those of CBO or the Joint Committee on Taxation). Chart 7 shows these changes in constant 1985 dollars.

These budget changes have had a severe impact. Reservations for additional low income units under HUD and Farmers Home programs will have dropped from a peak of 541,534 in fiscal 1976 to a projected zero in 1986 under the Administration's proposed 1986 budget. Chart 8 provides the figures for incremental units, including Section 8 existing and vouchers, but excluding loan management, conversions, or additional subsidies for HUD-held properties already receiving subsidies. An increasing proportion of the dwindling additions to HUD units are for existing housing, vouchers, loan management, or conversions of units to Section 8 from other programs, such as rent supplements, as Chart 9 shows.

CHART 7

FEDERAL HOUSING EXPENDITURES, 1981–86

IN CONSTANT 1985 DOLLARS

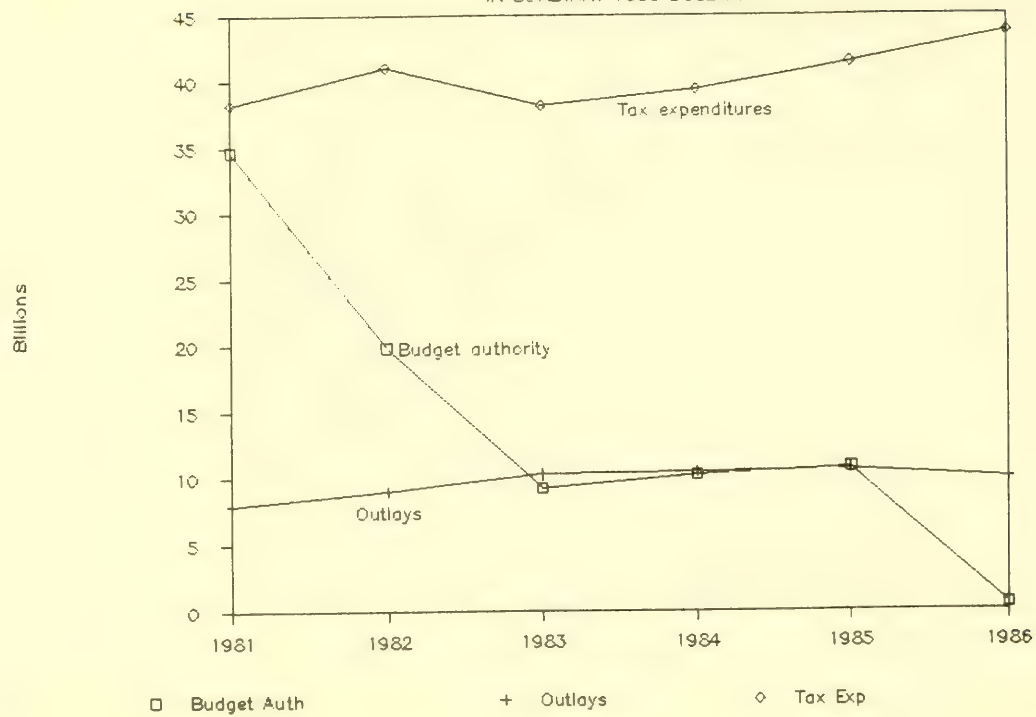


CHART 8

ADDT'L ASSISTED HOUSING UNITS, 1976–86

Incremental HUD and FmHA Units

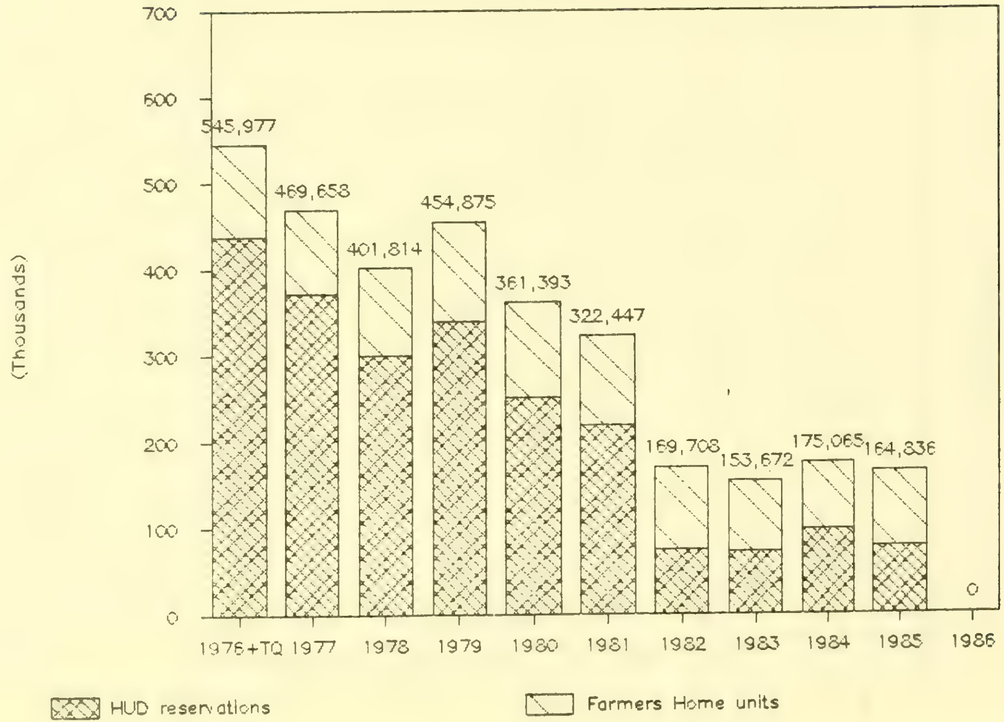
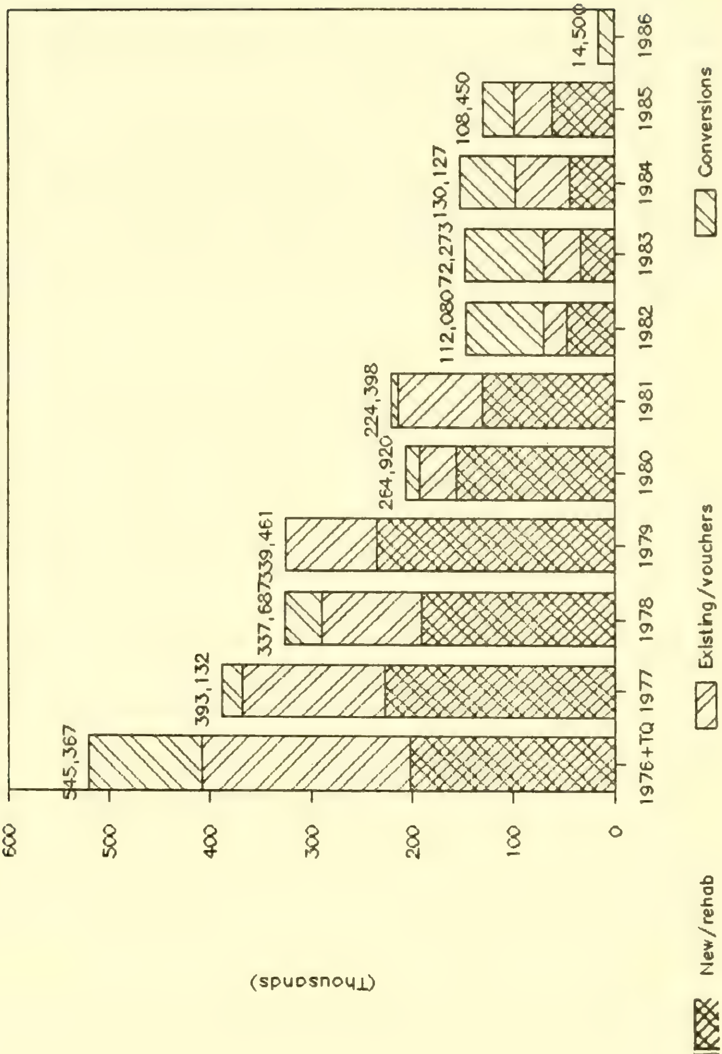


CHART 9

HUD-SUBSIDIZED UNITS BY TYPE, 1976–86

SUBSIDIZED UNIT RESERVATIONS



The impact of these changes is only beginning to be felt. As Chart 10 illustrates, there is a substantial lag between reservations, starts, and completions, and units approved several years ago are still being completed and occupied. This flow of additional units will not, however, continue.

In 1981, budget authority (as initially contained in the 1981 HUD appropriation, before cuts and rescissions) for low income housing was $30 billion, outlays for housing payments and operating subsidies for all units under HUD subsidy were $5.7 billion and the estimated cost of housing-related tax expenditures was $33.3 billion. The Administration's budget for 1986 calls for only $0.5 billion in budget authority for low income housing and $10.4 billion in outlays. Housing-related tax expenditures are estimated at $45.6 billion.

Table 8

Federal Housing Expenditures, 1981-86
(in billions of current dollars)

	1981	1982	1983	1984	1985	1986
Budget authority	30.2	17.7	8.6	9.9	10.8	0.5
Outlays	6.9	8.0	9.6	10.0	10.6	10.4
Tax expenditures	33.3	36.6	35.4	37.9	41.4	45.6

It should be noted that these figures understate the magnitude of housing-related tax expenditures because they do not include the failure to tax imputed rent as a homeowner deduction or tax expenditure. Imputed rent is "what a homeowner would receive by renting it (the home) out, less the costs of ownership, taxes, depreciation, and maintenance." (CBO, The Tax Treatment of Home Ownership: Issues and Options, 1981.) If the owner were renting the unit to someone else, s/he would be taxed on this income. The Congressional Budget Office notes that net imputed rental income has never been taxable in this country (although it has been taxed elsewhere) for two reasons: the concept has not been widely accepted by noneconomists and the practical difficulties of estimating the amount. A HUD study estimated the cost of this expenditure to the Treasury in 1979 at $14-$17 billion. It would be substantially higher now. (John C. Simonson, "Existing Tax Expenditures for Homeowners," HUD, 1981, cited by CBO.)

Roughly 90% of the cost of the housing provisions of the tax code are accounted for by homeowner deductions of mortgage interest and property taxes and deferral or exclusion of capital gains on home sales. Homeowner deductions in fiscal 1985 are estimated by the Joint Tax Committee to total $49.3 billion, while investor deductions will cost the Treasury an estimated $5.8 billion. (See Chart 11.) This pattern of housing-related tax expenditures is not substantially different from prior years.

CHART 10

HUD-SUBSIDIZED NEW/REHABBED UNITS

Reservations, Starts, Completions

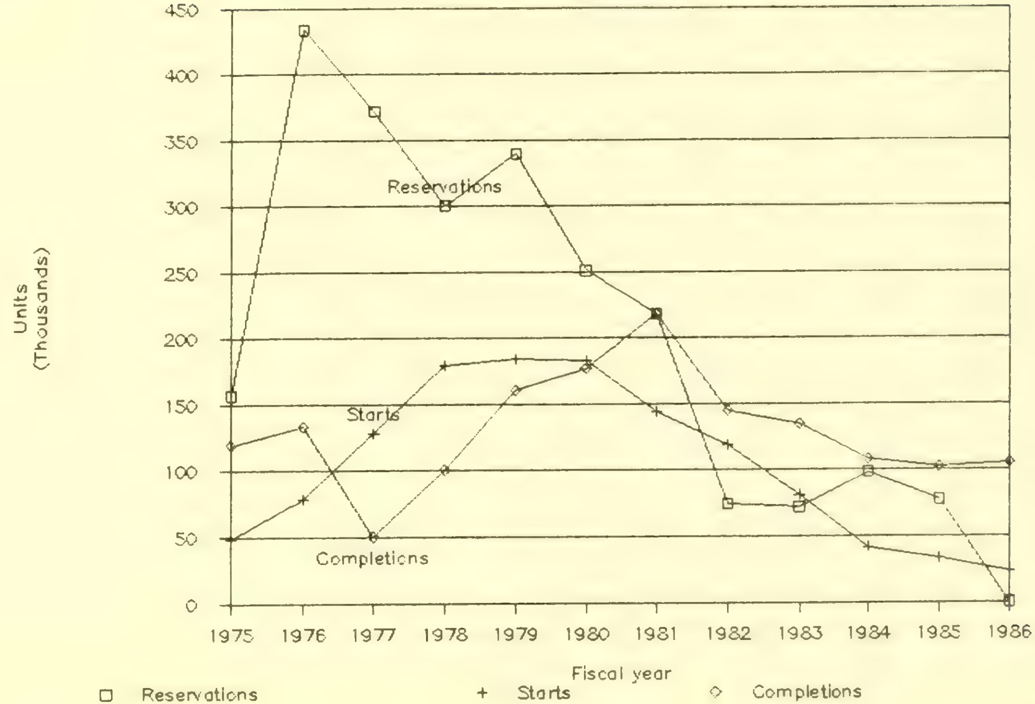
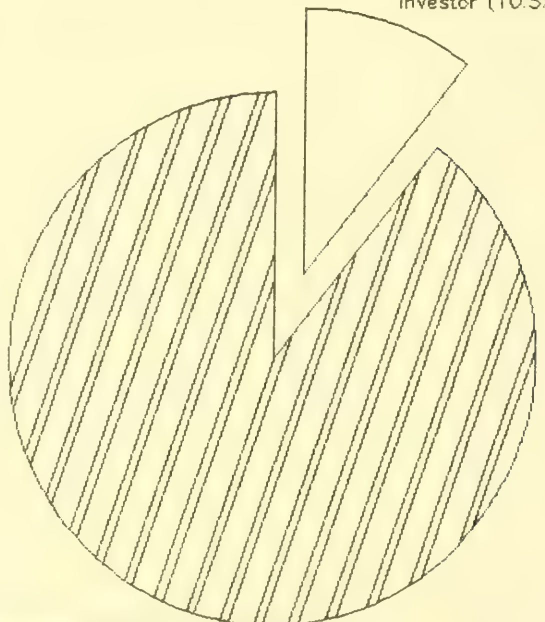


CHART 11

HOUSING—RELATED TAX EXPENDITURES, 1985
(CBO estimates)



This has major implications for tax policy and the impact of various efforts to reduce tax expenditures. In 1983 and 1984, Congressional attention to reducing these expenditures focussed on the investor deductions, while ignoring the far larger homeowner deductions.

The cost of the homeowner provisions of the tax code is increasing far more rapidly than assisted housing payments for lower income people.

While assisted housing payments (subsidies for all occupied units subsidized through HUD programs and the direct payments made by the Farmers Home Administration) have been rising steadily, though slowly, as additional units are subsidized, the cost of the homeowner provisions of the tax code is increasing far more rapidly (See Table 9 and Chart 12). This is not, however, the result of any conscious policy decision on the part of either the Administration or the Congress to increase the federal assistance going to homeowners. Rather, it is the result of the interaction of changes in the economy with the provisions of the tax code. High housing costs, high interest rates, and an increasing number of homes with mortgages account for much of the increase. To a certain extent, the homeowner deductions stimulate borrowing for other purposes. During much of the last ten years, for example, real interest rates have been negative after allowing for inflation and the tax deductibility of interest payments. Therefore, owners had a substantial economic incentive to refinance rather than pay off their mortgages.

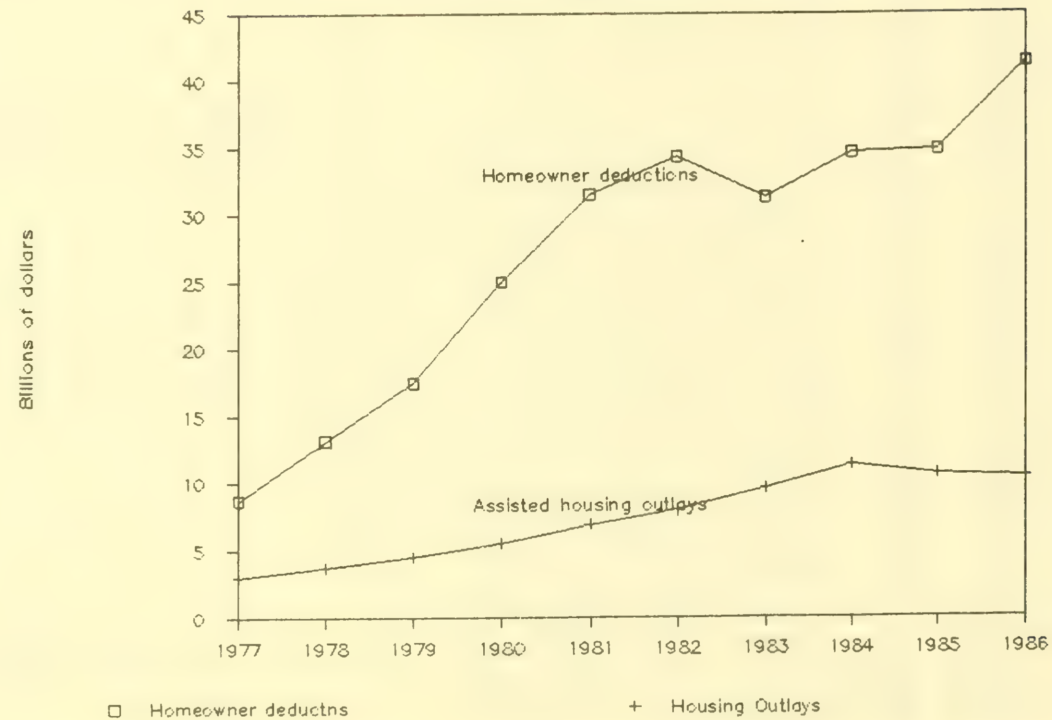
Table 9

Cost of Homeowner Deductions and Assisted Housing Outlays, 1975-86
(in billions of dollars)

Year	Homeowner Deductions	Assisted Housing Outlays
1975	9.9	2.1
1976	8.9	2.5
1977	8.7	3.0
1978	13.1	3.7
1979	17.5	4.5
1980	25.0	5.5
1981	31.5	6.9
1982	34.3	8.0
1983	31.3	9.6
1984	34.6	11.3
1985	34.8	10.6
1986	41.3	10.4

CHART 12

HOMEOWNER DEDUCTIONS AND ASSISTED HOUSING PAYMENTS



It is worth noting that the homeowner provisions in the tax code were not, with the exception of the capital gains provisions, inserted in order to provide assistance for homeownership. On the contrary, they are the result of a definition of income, which excluded interest and state and local tax payments, and which was included in the tax code when it was first enacted in 1913, having been carried over from an emergency income tax enacted during the Civil War. Until the broadening of the tax base and the rise in homeownership following World War II, it had little impact.

Unfortunately, accurate figures on the number of homeowners benefitting from homeowner deductions are hard to come by, because data on homeownership are kept by household and data on tax deductions are kept by taxpayer, and many households have more than one taxpayer. Nonetheless, it is clear that fewer than half of all homeowners claim mortgage interest and property tax deductions. In 1981, 26,425,000 taxpayers claimed these deductions; this is 48.6% of the total number of owner-occupied units in the inventory that year. (This figure overestimates the proportion of owners using the deductions, since some owner households had more than one taxpayer claiming these deductions).

Upper income people receive a disproportionate share of total federal housing expenditures.

In 1981, one quarter of all households had incomes below $10,000, but they received only one-eighth of all federal housing assistance (direct and through the tax code). Lower middle income households -- 27% of all households -- received only 7% of all housing assistance. At the other end of the income distribution, one quarter of all federal housing assistance went to the 7% of all households with incomes above $50,000 and 43% of the assistance went to the 20% of households with incomes between $30,000 and $50,000. Chart 13 and Table 10 show the relative distributions of households and housing subsidies, by income class, while Table 11 and Chart 14 show the number of subsidy recipients in 1981.

Table 10

Estimated Distribution of Households and Federal Assistance By Income Group, 1981

Income Group (in thousands)

	Under $10	$10-20	$20-30	$30-50	Over $50
Households	25.4%	26.7%	21.1%	19.6%	7.2%
Subsidies	12.6%	6.9%	12.8%	43.5%	24.2%

CHART 13

HOUSEHOLDS AND HOUSING SUBSIDIES, 1981

Distribution by income group

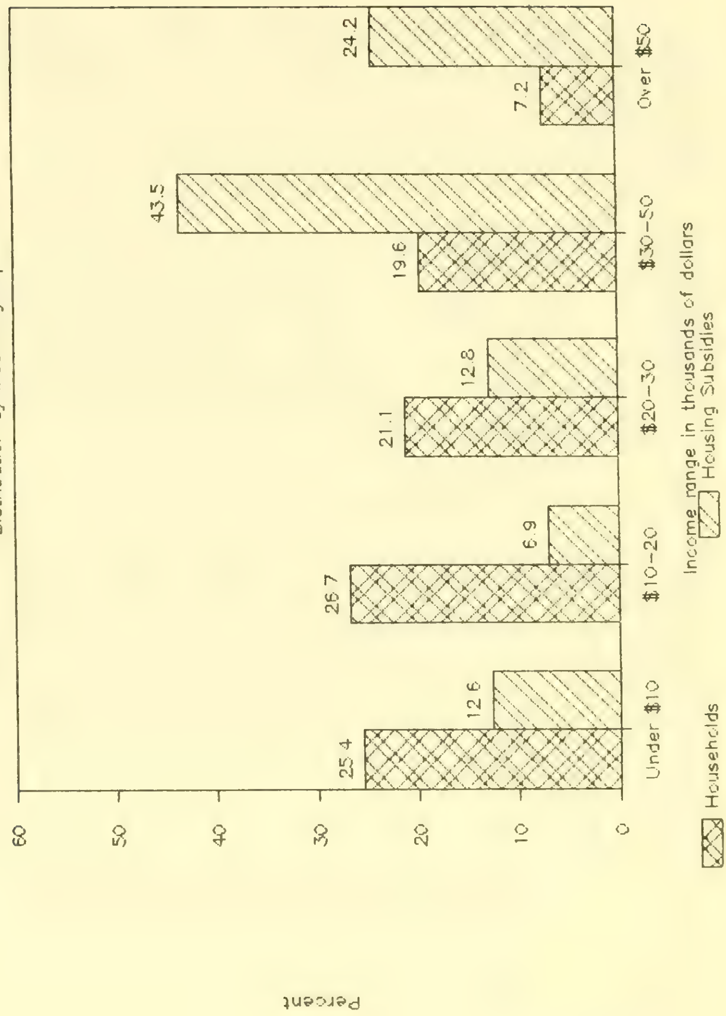
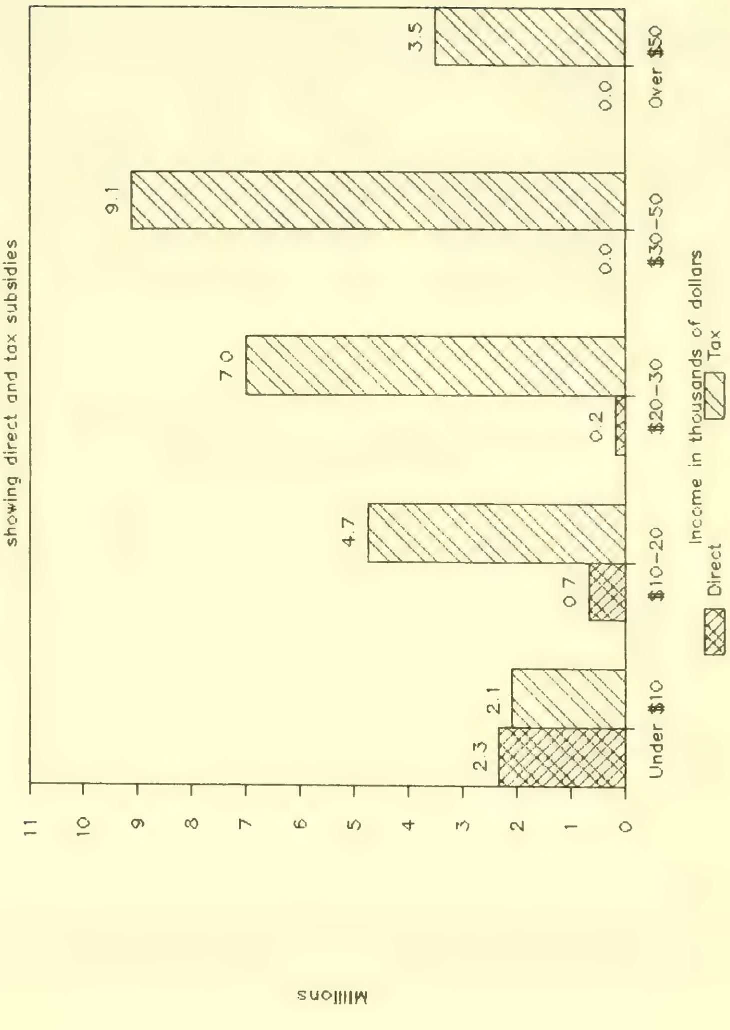


CHART 14

HOUSING SUBSIDY RECIPIENTS, 1981

showing direct and tax subsidies



The proportion of households receiving federal housing assistance, either directly or through tax expenditures, rises as income increases. Only a one-eighth of taxpayers with incomes below $10,000 receive housing assistance and about half of this assistance is direct (that is, federal housing assistance payments on behalf of these households to owners of subsidized units). About one fifth of all taxpayers with incomes between $10,000 and $20,000 receive housing assistance, primarily through the tax code. In contrast, two thirds of all taxpayers with incomes between $30,000 and $50,000 and more than four fifths of those with incomes above $50,000 receive housing assistance through the tax code. Chart 15 shows the number of taxpayers, by income group, receiving housing assistance. (Since there are often two taxpayers in the same household, the total number of taxpayers is greater than the number of households.)

Table 11

Total Taxpayers, by Income, and Recipients of Tax and Direct Housing Subsidies, 1981
(Millions of households)

	Income in thousands of dollars				
	Under $10	$10-20	$20-30	$30-50	Over $5
Taxpayers	34.6	24.3	17.1	13.4	4.1
Receiving tax subsidies	2.1	4.7	7.0	9.1	3.5
Not receiving tax subsidies	32.5	19.6	10.1	4.2	0.6
Housing subsidy recipients					
Tax subsidies	2.1	4.7	7.0	9.1	3.5
Direct subsidies	2.3	0.7	0.2	0.0	0.0
TOTAL	4.4	5.4	7.2	9.1	3.5

Moreover, the average amount of assistance per household rises with income. In 1981, the average amount of federal housing expenditures per household was $10.40 per household per month for households with incomes under $10,000, rising to $155.54 per household per month for households with incomes above $50,000 (See Table 12 and Chart 16).

CHART 15

TAXPAYERS BY INCOME GROUP, 1981

with number getting tax subsidies

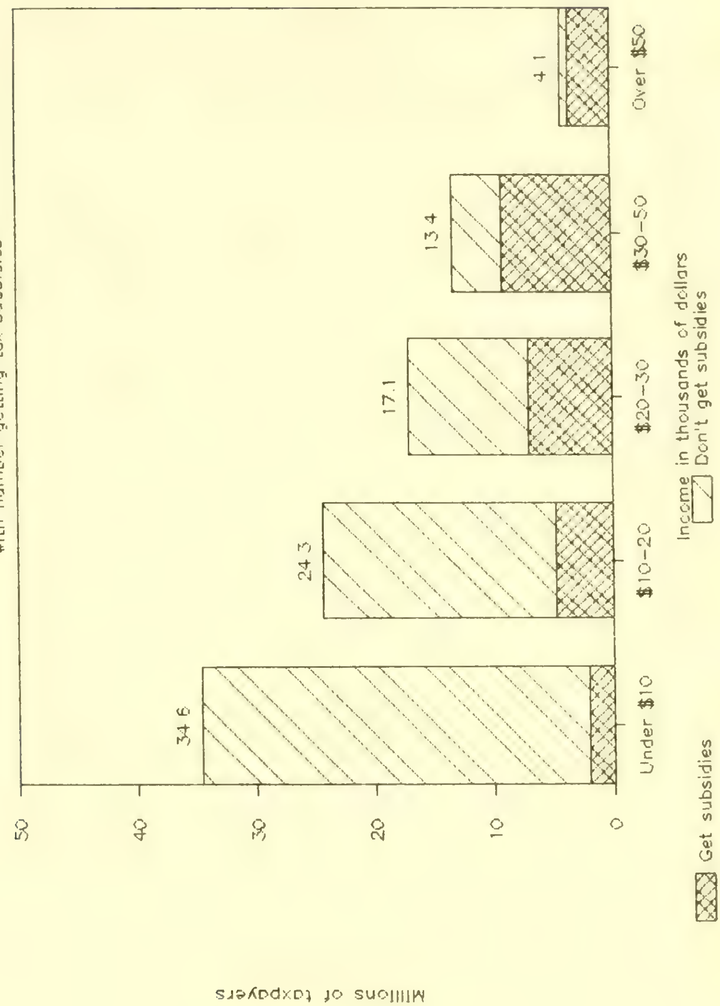


CHART 16

AVERAGE MONTHLY HOUSING SUBSIDIES

PER HOUSEHOLD IN INCOME CLASS, 1981

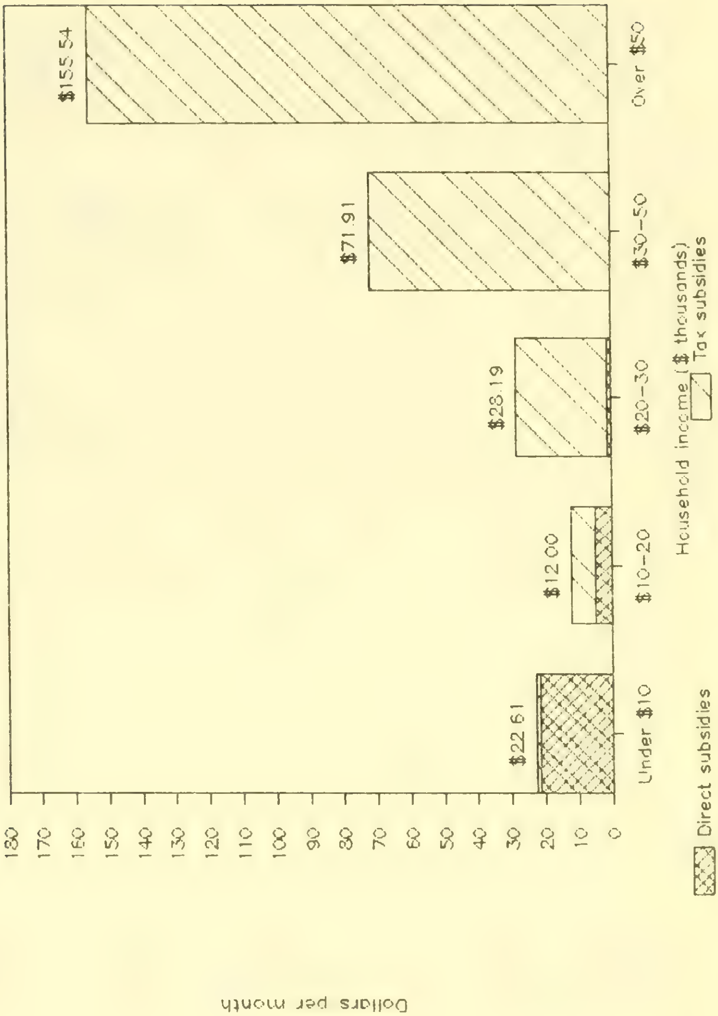


Table 12

Total and Average Subsidies by Income Group, 1981

	Under $10,000	$10,000-$20,000	$20,000-$30,000	$30,000-$50,000	Over $50,000
Total households (000's)	21,229	22,293	17,600	16,413	5,992
Direct subsidies					
Households in assisted housing (000's)	2,182	557	134	0	0
Estimated total direct housing subsidies (000,000's)*	$5,455	$1,272	$214	$0	$0
Average per assisted household*	$257	$57	$12	$0	$0
Average per month	$208.34	$190.37	$133.33	$0.00	$0.00
Average per household in income class	$257.00	$57.00	$12.00	$0.00	$0.00
Average per month	$21.41	$4.76	$1.02	$0.00	$0.00
Average per recipient	$1,353	$322	$835	$1,553	$3,200
Tax subsidies					
Households claiming tax subsidies (000's)**	2,075	4,740	6,996	9,119	3,495
Estimated total tax	271	144	338	863	1866
subsidies (000,000's)	$305	$1,938	$5,739	$14,164	$11,184
Average per household receiving tax subsidy	$147	$409	$820	$1,553	$3,200
Average per month	$12.25	$34.07	$68.36	$129.44	$266.67
Average per household in income class	$14	$87	$326	$863	$1,866
Average per month	$1.20	$7.24	$27.17	$71.91	$155.54
Total subsidies					
Total tax and direct subsidies (000,000's)	$5,760	$3,210	$5,953	$14,164	$11,184
Total recipients (000's)	4,257	5,297	7,130	9,119	3,495
Average per recipient	$1,353	$322	$835	$1,553	$3,200
Average per month	$13.88	$11.01	$29.08	$87.11	$226.93
Average per household in income class	$271	$144	$338	$863	$1,866
Average per month	$22.61	$12.00	$28.19	$71.91	$155.54

*Subsidies allocated arbitrarily to tilt slightly toward lower income.
**Households claiming homeowner deductions; these estimated totals are probably too high.

Source: Estimated by Low Income Housing Information Service from official government documents.

There is a myth that low and middle income homeowners are the chief beneficiaries of homeowner deductions. The facts do not support this. Although about two thirds of all households are homeowners, only 28% of the tax returns filed in 1981 claimed homeowner deductions. This was primarily because the majority of taxpayers do not itemize their deductions. Most low income owners own free and clear, so they do not have mortgage interest deductions to claim. For others, incomes and marginal tax rates are so low that it does not pay them to do so. Therefore, they do not benefit from the homeowner provisions. (Part of the low percentage is also because some households have more than one taxpayer, but this is a small part of the difference.)

The magnitude of the subsidy imbalance is such that a more equitable approach to federal housing assistance could provide a substantial portion of the funds needed to deal effectively with the critical housing needs of low income people. For example, Anthony Downs has estimated that a reduction of only 14% overall in homeowner deductions for mortgage interest and property taxes would produce enough revenue to fund a full-scale, entitlement housing allowance program. (Rental Housing in the 1980's.)

CHAPTER FIVE

CONCLUSION

Clearly, federal housing subsidies are out of balance. The first step in dealing with this problem is to define what are appropriate objectives for federal housing policy and programs. Then, both tax and direct expenditures should be moved toward supporting these objectives. Given the magnitude of housing needs, it should be axiomatic that federal housing assistance should be directed toward providing decent, affordable housing for those who cannot obtain or retain it in any other way.

It should be emphasized that it is neither necessary nor desirable to repeal homeowner deductions to redress the inequities of our present housing subsidy pattern. They could be capped, or limited to principal residence only (not second or third homes), or converted to tax credits, or some combination of these proposals. Or, failing that, we could index housing subsidies for low income people to tax-related housing expenditures for upper income people (inasmuch as we're spending $33 billion for housing subsidies for the top fifth of the income distribution, shouldn't we spend at least half that much to meet the housing needs of the bottom fifth?). Each of these approaches, singly or in some combination, is worth consideration. The most important immediate need, however, is to generate public consideration and discussion of how we can best address the critical housing needs of the millions of families who require assistance to obtain decent, affordable housing and bring about a more equitable pattern of federal housing assistance.

# # # # #

About The National League of Cities

The National League of Cities was established in 1924 by and for reform-minded state municipal leagues. It now represents 49 leagues and some 1,200 cities directly and, through the membership of the state municipal leagues, almost 15,000 cities indirectly.

NLC serves as an advocate for its members in Washington in the legislative, administrative, and judicial processes that affect them; develops and pursues a national urban policy that meets the present and future needs of our nation's cities and the people who live in them; offers training, technical assistance and information to municipal officials to help them improve the quality of local government in our urban nation; and undertakes research and analysis on policy issues of importance to the nation's cities.

46-548 O—85——22

Senator HECHT. Thank you.

Mr. DELANEY. And, Mr. Chairman, I would like to move directly to the impact that it has on the city of Kankakee. The city of Kankakee, during the last few years, began to revitalize the downtown area, its innercity neighborhoods, to provide assistance for job retention and creation. This momentum was a result of both public and private efforts, including substantial assistance from the Federal Government.

CDBG ACCOMPLISHMENTS

In the area of CDBG, we have rehabilitated over 150 homes and structures, and utilized economic development activities under CDBG. We have created and retained over 900 jobs. A further cut of 24 percent of CDBG funds would sweep us below the threshold level at which an effective jobs creation and Housing Rehabilitation Program can be mounted.

In the area of UDAG, we have generated $2.4 million in private investment and created 118 new permanent jobs in our downtown area.

The first phase of our UDAG Program targeted for this year represents some $30 million of venture capital, will retain 2,500 jobs and create over 500 new jobs. Our second phase of this program would generate over $70 million and will create between 1,500 and 2,000 new permanent jobs.

UDAG as a program is very important to us, Mr. Chairman, and we, in the city of Kankakee, urgently ask that this program not be eliminated.

Thank you for the opportunity to present our views on behalf of NLC and the city of Kankakee.

Senator HECHT. Thank you. And your entire testimony will be a matter of record.

Mr. DELANEY. OK.

[The complete prepared statement follows:]

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[illegible]
[illegible]

STATEMENT OF HERB DELANEY ALDERMAN, KANKAKEE, ILLINOIS FOR THE NATIONAL LEAGUE OF CITIES MARCH 25, 1985

Mr. Chairman and members of the Committee, I am Herb DeLaney, Alderman of Kankakee, Illinois. I also serve as chairman of Community and Economic Development Policy Committee of the National League of Cities (NLC).

NLC represents over 15,000 municipalities through our network of state municipal leagues and over 1,000 direct member cities. I appreciate the opportunity to appear before the subcommittee on behalf of my city of Kankakee and the National League of Cities to express our support for maintaining a strong role for the federal government in addressing the housing and community development needs of our nation's cities.

The Administration's FY 1986 budget proposals call for significant changes in the operation as well as continuation of these programs.

Mr. Chairman, if I may, I would like to discuss some of the program reductions and changes in the broader sense and then give details on how the proposals specifically affect my city of Kankakee.

Community Development

Under the Administration's proposal the Community Development Block Grant (CDBG) program is slated for a 10 percent reduction from $3.472 billion in FY 1985 to $3.1 billion in FY 1986. In addition, the current percentage distribution of CDBG funds between entitlement (large cities and urban counties) and the state run (small cities) programs would be changed from 70/30 to 60/40. This proposal assumes the transfer of the Farmers Home Administration (FmHA) community development programs to HUD with no additional funding, with the HUD state CDBG programs carrying out the community development activities currently funded by FmHA.

Under the proposed shift entitlement communities would absorb a $551 million decrease from FY 1985 levels, or a 24 percent cut, while funding for non-entitlement communities would increase by $203 million in FY 1986. However, because the FmHA rural development programs would be reduced from $726 million in FY 1985 to $75 million in FY 1986, a $651 million cut; the net effect is a reduction of $448 million or a 26 percent decrease in overall resources for small city community development.

NLC strongly opposes the proposed funding reduction in CDBG and the accompanying change in the distribution between entitlement and non-entitlement communities.

In addition, we oppose the Administration's proposed termination of the CDBG Section 108 loan guarantee program, and the Section 312 rehabilitation loan program. The 108 program has proved to be an important development tool which permits entitlement communities to finance major capital improvements by pledging their CDBG funds as security against the loan guarantees. The 312 program has served a full range of local rehabilitation needs, including single family and multifamily structures and currently operates with repayments from prior obligations.

UDAG

Under the Administration's budget proposal, the Urban Development Action Grant (UDAG) program, currently funded at $440 million and authorized through FY 198C, would be terminated.

It is ironic that the same administration that last year touted UDAG as the perfect example of the public-private partnership, would now call for its elimination for purely deficit reduction reasons, especially when the same administration is requesting to increase our deficits by proposing the urban enterprise zone legislation.

NLC strongly supports the continuation of UDAG and would like to submit for the record a copy of HUD's response to the Office of Management and Budget (OMB) proposal to eliminate

UDAG. This response factually makes one of the strongest cases for continuation of this important economic development tool for our distressed cities.

In a related matter, I would like to express our views regarding the current controversy surrounding the UDAG project selection system instituted by HUD in December of 1983 to deal with the problem of having more technically fundable UDAG projects than there are available funds. This situation reflects both the decrease in other federal funds available for local development and the corresponding increase in the importance of UDAG.

The controversy regarding the HUD UDAG selection system centers around the relative weight given to economic impaction and distress on the one hand and project quality on the other. Because of the emphasis on impaction and distress, some projects providing significant benefits to a city may not be funded, while others with fewer benefits are approved because they are located in cities that are more impacted and distressed.

At our annual meeting in Indianapolis, the NLC membership adopted a resolution, which we believe will help address this problem, so as not to diminish the broad support for the UDAG program that has existed over the years.

THE RESOLUTION IS BASED ON THE PRINCIPLES (1) THAT ALL CITIES THAT ARE ELIGIBLE FOR UDAG SHOULD HAVE SOME OPPORTUNITY TO OBTAIN PROJECT FUNDING, (2) THAT UDAG SHOULD REMAIN A FUNDAMENTALLY TARGETED PROGRAM, AND (3) THAT THE UDAG PROGRAM SHOULD RETAIN ITS FLEXIBILITY AND ESSENTIAL PURPOSES.

OUR RESOLUTION ENDORSES THE RETURN--THROUGH AN APPROPRIATE MECHANISM--TO THE PRE-DECEMBER 1983 PATTERN OF UDAG FUNDING IN WHICH TWO-THIRDS OF THE FUNDS WERE AWARDED TO THE MOST DISTRESSED ONE-THIRD OF ELIGIBLE CITIES AND ONE-THIRD OF THE FUNDS WERE AWARDED TO THE OTHER TWO-THIRDS ELIGIBLE CITIES.

THIS POSITION HAS BEEN ENDORSED BY SEVERAL OTHER WASHINGTON-BASED NATIONAL ORGANIZATIONS CONCERNED ABOUT THE CONTINUATION OF UDAG INCLUDING THE U.S. CONFERENCE OF MAYORS, THE NATIONAL ASSOCATION OF HOUSING REDEVELOPMENT OFFICIALS, THE NATIONAL ASSOCIATION OF COUNTIES AND THE COUNCIL FOR URBAN ECONOMIC DEVELOPMENT.

ALTHOUGH, NLC HAS NOT ENDORSED ANY SPECIFIC MECHANISM, PROPOSALS BASED ON A TWO-TIER SYSTEM USING THE CURRENT PROJECT RANKING CRITERIA TO AWARD PART OF THE UDAG FUNDS BASED ON IMPACTION AND DISTRESS AND THE REMAINDER OF THE FUNDS TO BE AWARDED ON PROJECT MERIT IS HEADED IN THE RIGHT DIRECTION.

In addition, we urge that in preparation for the reauthorization of UDAG in 198C, that Congress institute a study of eligibility and project award criteria for the UDAG program including an evaluation of the age of housing and other need factors.

We believe that it is important to maintain the UDAG program as one of our most effective economic development programs and are prepared to work with the committee to retain the integrity and targeting provisions of the program while ensuring that all eligible UDAG committiees have some reasonable opportunity to compete within the program.

Housing Assistance

Since fiscal year 1981, the assisted housing programs have sustained the largest cuts of any domestic programs: a reduction of over 60 percent in new budget authority.

In this regard I would like to add that perhaps one of the most extraordinary changes over the past four years is the extent to which federal urban policy and most particularly federal housing policy has been dominated by federal tax policy. It is interesting to note that last year the Treasury estimated that the deficit was increased some $1.2 billion due to mortgage interest deductions taken by Americans to purchase vacation homes. That amount would automatically increase under the President's budget proposal, in sharp contrast to the virtual elimination of all housing assistance for low and moderate income households.

NLC recently adopted a policy statement concerning the relationship between tax and direct expenditure aspects of federal housing policy. If I may, Mr. Chairman, I would like to submit for the record that policy statement and a background paper on the issues of housing and taxes prepared by Cushing Dolbeare (former President, and current Chair of the National Low Income Housing Coalition), entitled Federal Housing Assistance: Who Needs It? Who Gets It?

Housing policy is housing policy whether it is manifested through the direct expenditure programs or the tax code.

We urge Congress to focus more attention on the relationship between tax expenditures and direct expenditures for housing assistance in order to provide a more systematic and comprehensive framework for federal housing policy.

For fiscal year 1986, the administration abandons its rhetoric of the last several years that the best way to provide housing for low income households in through vouchers for use in existing housing. Instead it proposes a two-year moratorium on any additional low income housing assistance; seeking to reverse a long-standing bipartisan commitment to provide "a decent home and a suitable living environment for every American family."

NLC strongly opposes the administration's efforts to end the federal role in providing housing assistance to those who are most in need and who cannot obtain or retain safe, sanitary and affordable housing without such assistance.

During the last five years, we have experienced an increase in poverty throughout the nation. Today, one in four children in the United States is born into poverty. Increasingly, with the federal cutbacks in the means-tested entitlement programs as well as low-income housing, the homeless and the hungry have turned to local government to provide assistance. In city after city across the nation there have been annual increases in the number of Americans without adequate shelter or nutrition. The HUD budget proposal offers no initiatives, no hope for these people; it promises to put more and more desperate Americans on our streets.

In the past four years almost all cities have raised local taxes and user fees, while cutting employees and services. At the same time as more and more families have fallen through the safety net, cities have become the place of last resort, containing our greatest housing problems.

While the Congress rejected the New Federalism proposals, the successive cuts in state and local assistance have made it a reality with one major difference: as proposed, the New

FEDERALISM WOULD HAVE CREATED REVENUE SOURCES FOR STATE AND LOCAL GOVERNMENTS TO ASSUME THESE FORMER FEDERAL RESPONSIBILITIES. PRESIDENT REAGAN'S NEW BUDGET PROPOSAL PROVIDES NO SUCH REVENUE SOURCES.

WE URGE THE COMMITTEE TO REJECT THE ADMINISTRATION'S PROPOSED HOUSING BUDGET AND IN ITS STEAD PROVIDE COMPREHENSIVE HOUSING PROGRAM FOR LOW AND MODERATE INCOME HOUSEHOLDS, INCLUDING PRODUCTION, REHABILITATION, HOUSING FOR THE ELDERLY AND HANDICAPPED AND FUNDS TO MAINTAIN OUR EXISTING STOCK OF PUBLIC HOUSING AND ADDRESS THE NEEDS OF THE HOMELESS, AT LEAST AT THE FY 1985 FUNDING LEVELS.

* * *

LET ME NOW TURN TO THE ISSUE OF HOW THE ADMINISTRATION'S PROPOSED HOUSING AND COMMUNITY DEVELOPMENT BUDGET WILL SPECIFICALLY EFFECT MY CITY OF KANKAKEE.

THE CITY OF KANKAKEE, DURING THE LAST FEW YEARS, BEGAN TO REVITALIZE THE DOWNTOWN AREA, ITS INNER CITY NEIGHBORHOODS, AND PROVIDE ASSISTANCE FOR JOB RETENTION AND CREATION. THIS MOMENTUM WAS A RESULT OF BOTH PUBLIC AND PRIVATE EFFORTS, INCLUDING SUBSTANTIAL ASSISTANCE FROM THE FEDERAL GOVERNMENT.

HUD URBAN DEVELOPMENT ACTION GRANTS WERE THE CATALYSTS THAT STARTED THE DOWNTOWN REDEVELOPMENT. IN ADDITION, WE USED

COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS TO CREATE AND RETAIN JOBS AND LEVERAGE OTHER PUBLIC AND PRIVATE DOLLARS TO REHABILITATE LOW AND MODERATE INCOME OWNER OCCUPIED HOMES.

THE ADMINISTRATION'S PROPOSED CUTS IN CDBG AS WELL AS ELIMINATION OF UDAG WOULD SIGNIFICANTLY IMPEDE OUR REVITALIZATION EFFORTS AT A TIME WHEN WE ARE MAKING PROGRESS.

CDBG

1. REHABILITATION

   WE HAVE REHABILITATED OVER 150 HOMES AND STRUCTURES AND ARE STRONGLY SUPPORTING TWO NOT-FOR-PROFIT COMMUNITY BASED ORGANIZATIONS IN THEIR REHABILITATION EFFORTS IN TARGETED AREA'S.

2. ECONOMIC DEVELOPMENT

   WE HAVE CREATED AND RETAINED OVER 900 JOBS THROUGH OUR JOBS CREATION AND RETENTION EFFORTS.

OUR EFFORTS HAVE ALREADY BEEN MADE DIFFICULT BY THE FACT THAT CURRENT FUNDING IS SIGNIFICANTLY LESS THAN (25%) PRIOR YEARS FUNDING.

A FURTHER CUT OF TWENTY-FOUR PERCENT WILL SWEEP US BELOW THE THRESHHOLD AT WHICH AN EFFECTIVE JOBS CREATION AND HOUSING REHABILITATION PROGRAM CAN BE MOUNTED.

IT IS NO SECRET AS TO HOW DIFFICULT IT IS TO IMPROVE THE HOUSING STOCK IN OUR CITIES. IT TAKES A BLOCK-BY-BLOCK, HOUSE-BY-HOUSE EFFORT. THERE IS NO ONE ANSWER. YOU CAN'T SAY

"ALL WE NEED IS...."BECAUSE WE NEED ALL OF IT: CD, THE HUD 312 PROGRAM, THE RENTAL REHABILITATION PROGRAM, HOMEOWNERSHIP PROGRAMS, PROGRAMS WITH INCENTIVES FOR ABSENTEE LANDLORDS TO REPAIR THEIR PROPERTIES. AND WE NEED MORE.

BUT THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM IS A CRITICAL TOOL IN THIS MULTI-FACETED APPROACH TO CREATING JOBS AND REPAIRING OUR HOUSING STOCK AND ANY FURTHER REDUCTIONS WILL SPELL TROUBLE FOR MY CITY.

UDAG

THE URBAN DEVELOPMENT ACTION GRANT PROGRAM IS ONE THAT HAS BEEN AND WILL CONTINUE TO BE OF SPECIAL VALUE TO KANKAKEE. OUR ONLY GRANT TO DATE GENERATED 2.4 MILLION DOLLARS IN NEW PRIVATE INVESTMENT AND 118 NEW PERMANENT JOBS. WE MUST HAVE UDAG IF WE ARE GOING TO CONTINUE TO BRING KANKAKEE BACK. WE HAVE ECONOMIC REVITILIZATION PLANS IN THE WORKS AND UDAG IS VITAL TO THOSE PLANS.

FOR INSTANCE, PHASE I OF THIS PLAN, A THIRTY MILLION DOLLAR VENTURE, WILL RETAIN 2,500 JOBS AND CREATE OVER 500 NEW JOBS.

PHASE II, OVER SEVENTY MILLION DOLLARS OF MIXED-USE-DEVELOPMENT, WILL CREATE BETWEEN FIFTEEN HUNDRED AND TWO THOUSAND NEW PERMANENT JOBS.

PUBLIC HOUSING

IN THE AREA OF ASSISTED HOUSING, THE PROPOSED MORATORIUM AND BUDGET CUTS WOULD VERY NEGATIVELY IMPACT KANKAKEE.

UNDER THE ADMINISTRATION'S PROPOSAL, PUBLIC HOUSING MODERNIZATION FUNDS WOULD BE VIRTUALLY ELIMINATED, EXCEPT FOR $175 MILLION TO MEET EMERGENCY NEEDS. THE KANKAKEE COUNTY HOUSING AUTHORITY'S LONG AND SHORT TERM NEEDS FOR PUBLIC HOUSING RENOVATION IS APPROXIMATELY 3.5 MILLION DOLLARS. THESE FUNDS ARE NECESSARY TO UPGRADE HOUSING UNITS TO 1980 STANDARDS. THE LACK OF A COMPREHENSIVE MODERNIZATION PROGRAM WILL LIMIT SEVERELY THE KANKAKEE COUNTY HOUSING AUTHORITY FROM IMPROVING THE LIVING CONDITIONS OF PUBLIC HOUSING RESIDENTS.

ASSISTED RENTAL UNITS REPRESENT 9.4 PERCENT OF KANKAKEE'S HOUSING STOCK. DATA INDICATES THAT A LARGE PORTION OF OUR LOW INCOME POPULATION LIVES IN OTHER NON-ASSISTED RENTAL PROPERTIES, MUCH OF WHICH IS IN NEED OF REPAIR. THE PROPOSED ELIMINATION OF FUNDS TO REHABILITATE THESE PROPERTIES, WILL MOST ADVERSELY AFFECT THOSE WHO CAN LEAST HELP THEMSELVES.

THE PROPOSED CUT IN OPERATING SUBSIDIES WILL HAVE A DRASTIC EFFECT ON OUR HOUSING AUTHORITY OPERATIONS. THERE WOULD BE A $211,000 SHORTFALL. BY FEDERAL REGULATION WE CANNOT RAISE TENANT RENTS, WE WOULD HAVE TO CUT STAFF AND CONFINE MAINTENANCE WORK TO EMERGENCY SITUATIONS.

ADEQUATE AFFORDABLE HOUSING AND GOOD INFRASTRUCTURE ARE ESSENTIAL ELEMENTS OF A HEALTHY CITY. THE ADMINISTRATION'S BUDGET PROPOSALS WOULD SERIOUSLY UNDERMINE OUR CITY'S EFFORTS IN THESE AREAS.

THANK YOU FOR THE OPPORTUNITY TO PRESENT THE VIEWS OF KANKAKEE AND NLC REGARDING THESE VITAL HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS.

Senator HECHT. The Banking Committee will be charged by the Budget Committee to make reductions in community development, transit, urban and rural housing, in all of the programs under our jurisdiction.

What are your priorities amongst these programs and can you offer any responsible approach toward reaching the savings targets?

Do you want to start, Mr. Riley?

Mr. RILEY. Mr. Chairman, we feel very strongly that the past must be incorporated into the present. Cities absorbed 70 percent of the cuts that have been made since 1980. Our funds, our programs, have already been cut by 50 percent. We feel that further substantial reductions in these programs will take cities beyond the pale. We would urge rather a budgetary freeze, as I mentioned in my opening remarks, on all nonmeans-tested programs, coupled with modest revenue increases in areas other than the personal income tax. This approach could produce upwards of $70 billion worth of reductions in the deficit without emasculating the urban programs.

Senator HECHT. Mr. Volgy.

Mr. VOLGY. Mr. Chairman, there's not much more I can add to that. That's basically the position of the National League of Cities as well, and we concur.

Senator HECHT. Thank you. Mr. Delaney.

Mr. DELANEY. In addition to what Mayor Riley said, Mr. Chairman, as part of the National League of Cities' priorities, we have adopted a policy of a freeze, recommending a freeze across the board in these areas as a way of saving Federal dollars.

Senator HECHT. Thank you. The administration and the Congressional Budget Office indicate that with moneys presently available, we can house more people with a voucher program in existing housing. Therefore, why do you ask us to spend more dollars per household on new construction efforts?

Do you want to start with that, Mr. Delaney?

Mr. DELANEY. As it stands where new construction is concerned, Mr. Chairman, and the effect of that, I think you may find in the policy NLC working paper; to give you a specific answer at this time, I would be unable to.

Senator HECHT. Sure. Mr. Volgy.

Mr. VOLGY. Mr. Chairman, I'm not sure to what extent that would have an impact on our community. I can tell you, sir, that, at the moment, even under the present housing program, particularly with section 8 housing, we have 1,000 families on a waiting list and 2,000 additional families who can't get on the waiting list.

Those are families waiting for public housing. In addition to those folks, we have literally 2,000 individuals, at the minimum, on city streets right now who are homeless. Any program that would allow us to provide greater housing opportunity for those folks would be greatly appreciated.

Senator HECHT. Thank you. Mr. Riley.

VOUCHERS ARE NO ANSWER

Mr. RILEY. Mr. Chairman, I brought about 100 pictures of run-down houses in Charleston which I would give to OMB as the answer to that question. The housing vouchers—that program does not add to the inventory. We need to continue programs to deal with the housing shortage. It's not an abstract, it's a fact.

I think if Mr. Stockman and the OMB experts would put their black book down for a minute and walk with me through the neighborhoods in my inner city and walk with these people through the neighborhoods of their cities, they would see that we have just begun to scratch the surface.

In all of the cities in the survey that we did, we found that housing needs had increased, not decreased in the last 2 years. When the economy was improving, housing needs, need for assisted housing has increased.

Public housing waiting lists—they are often composed of the people who are on welfare, who are blind, who are old, who have no resources. That waiting list is longer now than it was in 1980 and it's going to continue to get longer. The need is just enormous and the voucher system cannot meet the need without a program to produce new units, to modernize the existing units, to rehabilitate old housing, formerly once attractive large houses that are eyesores and abandoned into apartments for the poor, people who have been living in that neighborhood who were living in squalor—those kinds of resources must continue to be a part of the Federal city partnership.

Senator HECHT. Thank you.

There are currently numerous proposals to change the project selection system for the UDAG Program because many economically distressed cities can succeed in getting grants under the current system. I am also concerned that many projects with greater potential job production are passed by in favor of those with less impact.

Why shouldn't the program treat all distressed cities the same and simply fund those projects with the most economic impact?

Do you want to start, Mr. Delaney? Go down the line?

Mr. DELANEY. Yes, Mr. Chairman. One of NLC's resolutions speaks to, endorses, in fact, the return through an appropriate mechanism to the pre-1983 pattern of UDAG funding, at which two-thirds of the funds were awarded to the most distressed one-third of eligible cities, and one-third of the funds were awarded to the other two-thirds of the eligible cities.

This position has been endorsed by several of the Washington-based national organizations concerned about the continuation of UDAG, including the U.S. Conference of Mayors, the National Association of Housing Redevelopment Officials, the National Association of Counties, and the Council for Urban Economic Development.

And, although NLC has not endorsed any specific mechanism, proposals based on a two-tier system using the current project-ranking criteria to award part of the UDAG funds based on impaction and distress and the remainder of the funds to be awarded on project merit, we feel, seems to be headed in the right direction.

Senator HECHT. My time is up. If you two could just give me—is that the same answer as yours?

Do you have any different answer?

Mr. RILEY. Very quickly. There are two aspects of the problem that I think are illuminating. First of all, UDAG originally was funded at $675 million and was reduced to $440 million, a reduction of about one-third. The need is so much greater than the available funds. It is necessary to have a combination formula so that you can both address cities with severe distress and, at the same time, make sure that cities that have some degree of distress and very fine programs can receive funds.

If we had the original level of funding, even without any quota, which cities don't have on any of their programs, if we had had the original level of funds, the problem of the formula would not be as great as it is. We know that we can't get additional funds but a combination formula would address the problem and make it a fairer program.

Senator HECHT. I have some other questions, but they will be submitted to you for answers.

[Response to written questions not received in time for publication.]

Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

First of all, I particularly appreciate the testimony of this panel. You have brought us a very important sense for what is happening out there, not what people might like to imagine here in the center of our Federal Government in Washington, DC, and up in the high towers of Government policy. You are out there where it is happening, and I think you make a very strong argument.

CUTS ARE HARMING THE NATION

Our urban programs have taken the brunt of the budget cuts over the last 4 years. In fact, we have cut too far. We are already at a point right now where we are, I think, harming the Nation and we are harming literally millions of people as a result.

People are losing hope in the system because they have no way even to live decently, and if there is one thing this Nation has to face, it is the fact that we have to make sure people have a chance to live decently.

Now, here in the Senate last week we voted $30 billion for the MX missile, which we dare not ever use. Now, that is a lot of money, and if you take the money we are talking about here in terms of additional cuts in urban programs, it is the tiniest fraction of that $30 billion, the tiniest fraction, and that money, the $30 billion for the MX, was, in my view, squandered with about as much abandon as someone would pay for a taxi fare across this town. It was not looked at in terms of the size or the magnitude of the dollars, and yet we are seeing all this additional pressure being placed on what is left of a very small, very meager, very inadequate national urban program.

So we are going to fight the elimination of UDAG because we need to keep UDAG, and we need to keep it for the very reasons that have been talked about, and in fact, I don't think there ought

to be any further reductions in it at this point because we are now running well and meeting a need.

It is a solid program. It is actually in line with the articulated philosophy of the Reagan administration that calls for public/private partnership. It is paying dividends. It is bringing back economic strength to communities that are in trouble; it is providing jobs.

It has been an enormous help to the areas of the country in greatest distress, and I intend to again lead the fight to save the UDAG Program. We are working now on the project selection system on a bipartisan basis to answer some of the objections that some have had from communities that have been eligible but have never been able to win the competition.

We are going to change that so that everybody has a better chance. I think we can accomplish it.

But I want also to say that the illustrations that have been given here are very important ones to hear and to consider.

Yes, the responsibility of getting Government spending down has to be shared, but the domestic programs, the urban programs have had it taken out of their hides slice by slice over the last 4 years.

I just wish the President and the Cabinet could be here to listen to this. The problem is they are not hearing these things because they don't want to hear them. It makes it easier for them to send impractical recommendations up here.

We want a strong nation here in the end, and we want our people to be strong. We want our people to be able to live, to perform, to produce, and to contribute to the society. If we don't have livable cities where people can live free of conditions of squalor, then we don't have much to be proud of in my view. I appreciate the leadership that the three of you, and the other local officials who are in town today are giving. Some are in the room, others are outside the room, trying to get these jobs done—oftentimes with the ends of your fingertips—because we have not made the national commitment that the gravity of this national problem requires.

I have seen all the articles I want to see about the $600 toilet seats over at the Pentagon and the $900 pair of pliers that we were all reading about over the weekend. It seems we can't spend 5 cents to deal with the nagging, deep, and severe human problems that are clustered in most of the major cities of this country.

It is just wrong. This President has got the wrong priorities in this respect. Frankly, there was no referendum on these cuts last year. Anybody who says that is not telling the truth.

Not a single one of these cuts was talked about before the election. Not one. If they had been, then someone might argue that, yes, the country said they wanted to go in that direction. But the country is too smart to want to go in this direction. That is why those things weren't talked about before the election, only talked about after the election.

The same thing with the farmers. They were told there were no problems, and if there were they would be helped. Right after the election they were dropped over the side.

Now, the cities are being dropped over the side. But there are some of us here who strongly disagree, and I appreciate the presentation that has been made today.

I see you feel as strongly as I do, so, Mr. Mayor, why don't you go ahead and say what you want.

Mr. RILEY. Senator, you are very kind, and I appreciate so much your remarks.

I would argue that there is the great national problem of this budget deficit and one that must be——

Senator RIEGLE. No question about it.

Mr. RILEY [continuing]. Addressed, but if the Congress and the administration seeks to solve it by cutting programs in the cities that have already been severely cut, sooner or later those programs, or something like them, will come back because our Nation in the 1960's saw the cities dying and saw ghettos, saw strife, saw homelessness, and saw decay, and our Nation said we are a better nation than that.

So if we stop this program now, cut out UDAG, which helps the inner city unemployed that don't have access to those jobs at the new factories outside the city, the inner city unemployed and underemployed who don't have the perceptional ability to get those jobs, if we cut that out, the Nation is going to put those programs back in sooner or later because we are a good country, and we believe in some of these basic necessities.

MODEST EFFORTS

So if we abandon worthwhile, proven, successful programs, we leave broken people and broken neighborhoods and broken cities in the process, the problem will be exacerbated. The costs will be much greater to solve, but we as a nation will solve them. We will seek to solve them because these urban programs weren't the result of a liberal Democratic administration. They were the result of Republicans and Democrats, liberals, moderates, conservatives forging a common sensical, modest effort. In terms of Western civilized nations' social programs, these are modest efforts. They are not lavish efforts, but modest efforts.

If we cut them back now, we are going to come back and put them back in. Those who have been hurt in the interim and those cities that have been damaged in the interim will not be repaired.

Senator HECHT. Senator Sasser.

Senator SASSER. Thank you very much, Mr. Chairman. I would like to follow up on a couple of remarks that my colleague, Senator Riegle, made.

I sometimes wonder when enough is enough. We talk about the expense of this latest missile, which follows on great expenditures and outlays for the B-1 bomber. We have the D-5 Trident 2 missile coming on in 1989, Stealth bombers, air launch and cruise missiles, research and development now on the midget man mobile missile.

Where will it all end, and when are we going to start making some investment in the things that appear to really count, and how much do we really need to be spending on many of these programs that Senator Riegle discussed, particularly with regard to this latest missile vote we had.

It is something that is very disturbing to me, and I want to ask you this, Mayor Riley, and these two distinguished committee coun-

cilmen here. I am beginning to wonder do the American people really care?

We talk about the problems, and I know what is going to happen when many of these programs are cut out or throttled back to the point that they can have no significant impact because I have seen these programs work in cities in my State.

I have seen them take Nashville, TN, which had some of the worst ghettos in this country, and totally rehabilitate them.

I have seen some of these programs work in Nashville to take garbage and burn it and make steam with it to cool and heat downtown buildings. None of this could have been done without many of the programs that we talk about here today.

But do the people—the question I am asking you as elected officeholders—do you really see the people in your communities not caring about what happens to these programs?

Mr. RILEY. Well, Senator, we live in a time of sophisticated communications, and I don't know that the citizens of all the communities of our country make a tie, or link, between this debate that is going on and what occurs at their own local level in the programs.

I am confident that in my city, and in any city, the citizens—Republicans and Democrats—who have observed the housing rehabilitation efforts would strongly vote to keep that program in effect.

Four years ago, when Mr. Stockman first sought to kill the UDAG Program, I brought to Washington to meet with Secretary Pierce a group of businessmen and businesswomen, black and white, Republicans and Democrats, who told the Secretary—with me, unusual for a mayor being quiet at a meeting. They said: "Mr. Secretary, our city needs this program because we have got work to do."

I am confident that the citizens of our communities recognize the worth at the local level. To articulate it in terms of fitting it into the existing debate may be slow in coming, but I know, as I said to Senator Riegle, that if we cut the programs, those very citizens to the next President or through the next Congress will say, we don't want to have a city where the core is deteriorated, where the neighborhoods are ghettos, where it looks like the dickens, where people are unemployed. That is not the kind of city we want, and we want you the Congress and you the next President of the United States to do something about it.

Mr. VOLGY. Mr. Chairman, Senator Sasser, I do believe that they do care. I do believe that they are listening and hearing the debate, and I do believe that they are very perplexed about the debate.

They care about the deficit, they care about the budget. They probably care about a strong defense. They also believe in their cities, and they believe in their programs, and I think they will watch with some awe at the size of the debate until they begin to feel the impact of the proposals.

I think that is when the true reaction is going to be felt. If the public transportation program is severely curtailed in November and December and people can't get to their jobs anymore and it results in greater unemployment, in greater effect on the welfare system, people are going to care in far greater numbers.

If the roles of our 2,000 people who are walking the streets homeless increased to 4,000, or 5,000, or 6,000 once the debate becomes

real, then there is going to be far greater caring and far greater concern, and I think you will see that concern generate as the debate ends and decisions are made.

Senator SASSER. Do you want to add to that, Mr. Delaney?

Mr. DELANEY. Just a little bit, Senator, as to caring. It appears to me, at least in my neighborhood, there are two groups of individuals. There are those who have the need and those who articulate that need. There are those who are concerned, and that is across the board, those who say very little anymore and those who articulate those concerns.

And, what seems to be taking place, at least in my community and other communities, as evidenced by the number of locally elected officials that are in this room, is that at that level where the need is individuals have reached a point of such despair and have reached a point where their concerns over the loaf of bread or housing that is decent, safe, and sanitary, whether they will have houing at all, that they can't even grasp terms of $440 million for UDAG that would be eliminated or can't grasp $200 billion deficits. They can only understand that tomorrow they may not have a safe, decent, sanitary place in which to live.

PEOPLE DO CARE

That concern, and who articulates that concern, is evident, as I said, by the number of people in this room. People do care, those who are just above the threshold of absolute poverty expressing those concerns and cares, and those of us who have been charged with the responsibility to take that message as far as we possibly can and continue to find and work with both the administration and the Congress of the United States, we are as best as we possibly can addressing those concerns.

Senator SASSER. Thank you very much. Thank you, Mr. Chairman.

Senator HECHT. Senator Gorton, do you have any questions?

Senator GORTON. No questions, Mr. Chairman.

Senator HECHT. Senator Proxmire.

Senator PROXMIRE. I just have a couple of questions I would like to ask, if I might, Mr. Chairman.

Mr. Volgy, you make a very, very strong appeal for a continuation of the subsidies the Federal Government pays for operating expenses for transportation, and I wonder about that. The Federal Government pays an enormous proportion of the cost of—the capital cost of transportation, no, buying subway cars, right-of-way, all that kind of thing.

The council member from Las Vegas who appeared, we asked her for her priorities. She put mass transit at the end, the very last.

How do you justify the idea that you would have a subsidy of the operating expenses in every community in America by the taxpayer here?

If you are in a community—many of them in Tennessee, Wisconsin, Nevada, and Washington, their small communities don't have any mass transit at all. They have low incomes often.

Why should they pay for mass transit in New York City, who gets such a large proportion of it, or Chicago, or Milwaukee for that matter?

Mr. VOLGY. Mr. Chairman, Senator Proxmire, I do believe that we have established a Federal program for transportation that is really meant to be a balance of roads and public transportation at the same time and that we have gone in that direction and that it has become a national priority.

Senator PROXMIRE. Nobody is talking about taking your capital.

Mr. VOLGY. I understand, sir.

Senator PROXMIRE. Which is $1.9 billion.

Mr. VOLGY. I understand, sir, but I think that as part of that responsibility that we have, the Federal Government ought to support—as a national policy—support public transportation.

Now, the issue that you are asking me I believe is whether or not it should be only capital or assistance for operating as well.

We have a whole series of requirements imposed upon us by the Federal Government that are linked to operating costs, and we have estimated those to run to roughly 25 percent of our overall operating costs—section 13(c) requirements, Davis-Bacon requirments, support for handicapped transportation in terms of Federal requirements.

They take up a very large percentage and an average of 25 percent of our operating expenses, and we need some support at the Federal level.

Now, I cannot say to you, sir, that there is no other way of financing that, but I will have to trade off something equally, if not even more crucial, that exclusively belongs in the local realm. It will have to be public safety.

Senator PROXMIRE. Well, as I see it, the people, to the extent they can afford it at all, should pay for what they use. If somebody is going to use the subway, use the bus, why shouldn't they pay for it? Why should somebody else, particularly in view of the fact that people with lower incomes are required because they pay taxes, too, to pay for the convenience of somebody with a higher income?

Mr. VOLGY. Senator, with all due respect, we test that daily in Tucson. Every time we increase the fares we get a very quick lesson at how much people can afford to use the mass transit system, and when we lose over 1 million riders in a year for a 10-cent-rate increase, what we are finding out is that there are whole scores of people who simply cannot afford even the level of mass transit that they are asked to pay for.

Senator PROXMIRE. I only have 5 minutes. Mayor Riley wanted to comment. Then I have a question for Mr. Delaney.

Go ahead, Mr. Riley.

HEALTHIER CITIES

Mr. RILEY. Just briefly, Senator Proxmire, I think that there is a payment. The subsidy is in part a payment for better air quality, for better livability of cities. The automobile could eventually well destroy the cities of our country. Mass transportation makes cities livable, fewer garages, fewer surface parking lots, cleaner air.

I think there is a legitimate overall national contribution to that.

Senator PROXMIRE. That is a very, very good point.

However, the fact is that we also provide, as I say, a collosal amount of money for the capital necessary for mass transit operations.

Mr. RILEY. But without the operating subsidy, our survey, which is now a part of the record, showed that 83 percent of the cities would increase fares, a majority of them drastically. Now, 75 percent would reduce the number of transit vehicles in service; 70 percent would reduce routes; and 69 percent would reduce overall service. Also, 39 percent would be threatened with a shutdown of the entire system.

Senator PROXMIRE. Let me ask you, Mr. Delaney. You stress on page 11 and elsewhere the importance of UDAG, the Urban Development Action Grant Program.

Incidentally, you are from Kankakee. Know Harry Topping?

Mr. DELANEY. Yes, I do.

Senator PROXMIRE. Really.

Mr. DELANEY. He is a good friend of mine. Yes.

Senator PROXMIRE. I haven't seen him for 45 years. [Laughter.] He is a good friend of mine.

Mr. DELANEY. Well, he is still alive.

Senator PROXMIRE. He is still alive.

Mr. DELANEY. Yes.

Senator PROXMIRE. That is good to know.

Mr. RILEY. I hope he is for the UDAG Program.

Senator PROXMIRE. I doubt if Harry Topp—well, Harry Topping couldn't be for the Urban Development Action Grant Program. He made a few mistakes in his life. But let me ask you about that UDAG.

Here's a program which in the years I've been on this committee—27 years—I've supported it in the past but it seems to me it should have a lower priority than some and here's why.

Urban development action grant provides some funds for cities to develop their central city operation usually. It doesn't really do a lot at least directly for people with low incomes. Why shouldn't we take that money and provide it for low-income rural housing or low-income housing rather than using it for UDAG.

I have case after case after case where UDAG Programs have been started in order to get people to move out of my State, for instance—Racine, WI, for instance—to Iowa. Racine, WI, had higher unemployment than the place they were going to move in Iowa. It didn't make any sense at all.

So you're robbing one city for development operation and it seems to me that if a city's going to—downtown area is going to benefit, businesses are going to primarily benefit. That, it seems to me, to me to be a less desirable use than to helping people who need it for low-income housing.

Mr. DELANEY. Senator, your point is well taken. If that's the purpose in which—and I speak specifically about the city of Kankakee—if that's the purpose in which we were going to use the funds.

We've had only one UDAG grant in the city of Kankakee, and that tended to retain more jobs than create new jobs, however, it was of significant benefit.

We will be applying in the next round for UDAG, specifically in the area of job creation. We have a downtown store—Carson's, in fact—that has been in downtown Kankakee for many years, is considering leaving the downtown area. They want to create a new store which will add new jobs and retain existing jobs.

In the State of Illinois within the last year, there were three Carsons that closed in other cities. Fortunately, Kankakee was not one of them; we want to retain them.

The other projects that we have available are for the creation of new jobs and a mixed use development project which will also include housing as a component of that project. And as I said earlier, it's a $70 million project and housing is included in that.

I might also mention that my ward, which is 95-percent black, has a high percentage of low-income individuals, has a significant housing need. My ward, the downtown area of the city of Kankakee, is part of my ward. So, as the downtown is redeveloped, my ward is redeveloped. Many of the low-income individuals that are in my ward certainly will be helped because of new job creation and the jobs that would be retained.

So as it speaks—as it relates to the city of Kankakee, UDAG is a very, very important tool for our city.

Senator PROXMIRE. My time is up, Mr. Chairman.

I just wanted to say that I've seen many cases where UDAG has resulted in developing a downtown and we've lost the housing, especially housing for the poor. You know that happens.

Mr. DELANEY. I'm aware of that.

Senator RIEGLE. Mr. Chairman, before you yield, could I just make a comment on the project that you spoke about that looked like it was going to take people to the——

Senator PROXMIRE. Fortunately, it didn't.

Senator RIEGLE. Yes, exactly, it didn't. It was not funded and, as a matter of fact, the folks from Iowa are feeling that maybe they haven't done all that well under UDAG and they have some validity to their complaint.

But, section 119(h) of the UDAG law actually prohibits the kind of raiding that you speak about. If a community is trying to take something away from another community, that alone is enough to invalidate the project however other worthwhile it may otherwise be.

But, I would hope the Senator from Wisconsin would keep an open mind on UDAG because if we lose that——

Senator PROXMIRE. My mind is tightly shut. I'm against it.

Senator RIEGLE. Well, hopefully, we can reopen it because that is a——

Senator PROXMIRE. No way.

Senator SASSER. You can see the Senator of Wisconsin is ambivalent about this. [Laughter.]

Senator HECHT. Well, with that, I think, let's go to the next panel.

Our third panel, will they please come up, please?

[Pause.]

Senator HECHT. Before we start the third panel, Senator Gorton has a few remarks to make.

OPENING REMARKS OF SENATOR GORTON

Senator GORTON. Mr. Chairman, my remarks are simply directed at introducing one of the members of this panel.

Rose Besserman is a member of the city council of the city of Vancouver, WA—we underline that, Mr. Chairman, not British Columbia—and is not only a member of the board of directors of the Clark County Transit Authority but has played a major role in creating a transit authority in that county which is a model for the State. She is very, very much aware of the concerns of counties of medium size, metropolitan area, and she is also very much aware of the budget problems which we face here and while I have not been able to attend much of this hearing today, I wanted to commend her to you.

While she is a substitute witness, I'm convinced that you will find her to be a more than adequate replacement and she will help the deliberations of the committee significantly.

Senator HECHT. Thank you, Senator Gorton.

Anyone else have anything to say? If not——

Senator RIEGLE. Mr. Chairman, only that I'm very pleased, too, to have a Michigan witness at the table, Mr. Richard Simonetta from Ann Arbor. I'm pleased that you're here, bringing an insight that I know will be very useful to the committee. I want to welcome you.

Senator HECHT. Anyone from your State, Senator Proxmire?

Senator PROXMIRE. I'm afraid not from Wisconsin. That's my problem today, there's nobody from Wisconsin.

Senator HECHT. No one from Nevada here either, so let's get started.

Mr. Frank, will you start off?

In case all of you were not here before, please limit your statement to 5 minutes. If you're not done—I'll give you the 5-minute warning and I'll give you another minute to recapitulate. OK?

STATEMENT OF WARREN H. FRANK, BOARD MEMBER AND EXECUTIVE DIRECTOR, CENTRAL NEW YORK REGIONAL TRANSPORTATION AUTHORITY, SYRACUSE, NY, CHAIRMAN, AMERICAN PUBLIC TRANSIT ASSOCIATION

Mr. FRANK. I think you'll find, Mr. Chairman, that we're quite organized and none of us will take more than the required time.

Senator HECHT. Thank you.

Mr. FRANK. In fact, we certainly want to thank you for the opportunity, Senator Hecht, and members of this subcommittee, to be here.

I want to introduce myself. My name is Warren Frank. I'm the executive director and also a board member of the Central New York Regional Transportation Authority which is located in Syracuse, NY.

I'm here today principally in my role as chairman of the American Public Transit Association. That's the international association of transit operators and suppliers.

Our member transit systems carry more than 95 percent of the U.S. transit riders. I'd like to take this opportunity, Senator, to

congratulate you on assuming the chairmanship of this very significant subcommittee.

Senator HECHT. Thank you.

Mr. FRANK. And we'd like to express that the transit industry's eagerness to work closely with you and your staff in the coming weeks and months.

In the brief time we have, Senator, my colleagues and I, we would like to be responsive to you and to the subcommittee's interests in the administration's proposed fiscal year 1986 budget request for urban mass transportation.

Before speaking from the national perspective I want to take just a moment to profile Centro, the transit system I oversee in Syracuse, NY.

Last year we were recognized by the American Public Transit Association as the best midsized transit system in North America. We have also won the top award in North America for transit management of systems of any size. We have twice been cited by the President of the United States for our promotion of mass transportation in concert with private enterprise.

Our transit professionalism has been recognized by three successive Governors of New York State of both political parties, and we have worked with a 10-person board which, for much of its life, has been composed of 5 Democrats and 5 Republicans. That in itself is an achievement, I'm sure.

ISSUE OF HUMAN AND COMMUNITY NEEDS

Mass transportation in Syracuse, NY, is not a political issue but rather an issue of human and community needs. That's very factual.

We welcome this opportunity, Senator, to present the transit industry's views of what we believe is the most damaging and devastating Federal transit budget request since the inception of the Federal Aid Program more than a generation ago.

In our judgment, this proposal would undo in a single misguided stroke the years of painstaking work and effort that Congress has done to assure viable public transit services to the urban and rural areas of our Nation.

This budget request is a travesty. It's a travesty that will, in our opinion, lead to an immediate, unavoidable, and massive decline of public transit services in America. And we implore you and the Congress as a whole to reject it totally.

As you are aware, Senator, the Budget Committee of this body has recently sent to the Senate a proposed budget resolution for next year. Although a preliminary vote in the Budget Committee supported a freeze at the 1985 levels for public transit, subsequent action resulted in a recommendation for a 25-percent cut in the program.

While this action on the one hand represents a strong repudiation of the administration's proposed two-thirds cut, it remains unacceptable to the transit industry, and unfair to the riders we represent.

A 25-percent cut in Federal mass transit assistance is no more justifiable than is the administration's effort, singling out a few

programs like public transit, for major and arbitrary reductions while at the same time granting others a freeze or substantial increase in revenues. This promotes continued imbalance and inequity for short-term expediency.

An immediate one-quarter cut in funding for transit represents, in our view, a decision to prolong the demise of public transportation rather than simply to administer the coup de grace, as the administration intends.

As you consider the Budget Committee's proposal, Senator, please keep in mind that this sized reduction will commence the same downward spiral of record high fares, declining ridership, and deteriorating service that larger reductions would precipitate. The only difference is that the inevitable is painfully prolonged.

We implore this subcommittee, during consideration of any future reconciliation instructions to ensure that some measure of equity, fairness, and balance, are restored to the budget.

Senator HECHT. Please summarize in the next minute, would you please? Time is up.

Mr. FRANK. We continue to believe that preservation of the 1985 levels of Federal transit funding is a fully rational and justified position to espouse when the many benefits of our services are taken into consideration.

[The complete prepared statement follows:]

STATEMENT BY THE

AMERICAN PUBLIC TRANSIT ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

HONORABLE CHIC HECHT, CHAIRMAN

MARCH 25, 1985

APTA WITNESSES

Warren H. Frank
Board Member and Executive Director
Central New York Regional Transportation Authority
Syracuse, New York
Chairman, American Public Transit Association

Jerome C. Premo
Executive Director
New Jersey Transit Corporation
Newark, New Jersey
Chairman, APTA Legislative Committee

Leslie R. White
Executive Director
Clark County Public Transportation Benefit Area
Vancouver, Washington
Vice President, APTA for Small Operations

Richard J. Simonetta
Executive Director
Ann Arbor Transportation Authority
Ann Arbor, Michigan
Chairman, APTA Productivity, Performance and Incentives Subcommittee

Accompanied By:
Jack R. Gilstrap
Executive Vice President

Statement of the
American Public Transit Association
Before the
Subcommittee on Housing and Urban Affairs
U.S. Senate

March 25, 1985

INTRODUCTION

The American Public Transit Association represents over 300 bus and rail transit systems across the country which carry 94 percent of all transit riders in the United States. In addition, APTA's membership includes over 400 manufacturers and suppliers of transit equipment, consultants, contractors, state and local departments of transportation, planning agencies, and universities.

We are pleased to present the Subcommittee with our views on the absolutely crippling effect which the Administration's proposed 1986 transit budget will have on communities across the country. In the past appearances before various committees of Congress we have decried massive reductions and the elimination of federal transit funding on a variety of well-supported grounds. In its wisdom, Congress has consistently reinforced its commitment to meeting the mobility needs of the nation by resisting the efforts of the Administration to gut the federal transit program. This year, however, we are faced with perhaps the most blatant and devastating attempt yet to kill the federal transit program.

Where the Administration's past efforts were centered on 'phased' reductions, the FY 1986 budget proposal eliminates entire programs in a single sweeping gesture; where past rhetoric has at least acknowledged Congress' consistent intent to maintain the federal transit program, this budget presumes to unilaterally redefine and eliminate the federal interest, disregarding Congressional intent; where meager attempts were made in past budgets to provide some rationalization for proposed reductions, the proposals for FY 1986 are based only on vague philosophy and an occasional anecdote. No decision-maker, public or private, would make even the most routine investment decision based on such superficial rationales and disregard for the impacts, much less a decision affecting the mobility of millions of Americans and the economic vitality of our nation's communities.

We, as well as our colleagues in state and local government, welcome the opportunity to discuss with members of the Subcommittee the inequity and the devastating impacts of an attempt

to reduce a $200 billion annual budget deficit by seeking massive cuts in domestic programs which represent only 10 percent of the budget. The deficit must be reduced--we all share this common objective--but there must certainly be a means of achieving the objective in a much more well-reasoned, well-balanced and less disruptive way.

The basic points we wish to make are these:

1) Transit investment needs are sizeable and continue to grow;

2) The Administration's proposal to withdraw federal support is highly unfair and the rationales provided incorrect and misleading;

3) The greatest impacts will fall on the most vulnerable members of our society--the low income riders, the transportation disadvantaged, the elderly, etc.;

4) Transit services in hundreds of communities will suffer immediate, unavoidable and massive declines;

5) There will be substantial negative economic impacts;

6) State and local government are not in a position to replace massive reductions in federal transit support to avoid these consequences;

7) Some balance and equity must be restored to the effort to reduce the deficit; a freeze in domestic programs is a legitimate and productive approach without the disruptive, divisive and unfair consequences that clearly will result from the Administration's proposal.

TRANSIT CAPITAL INVESTMENT NEEDS

Last February, we presented to this Subcommittee the results of a detailed assessment of the nation's transit capital needs. The analysis indicated that a total capital investment of over $36 billion is required through 1988 to ensure the continued integrity, safety and reliability of service to the public. Table 1 indicates how these needs are distributed among major types of projects.

Table 1
FIVE YEAR TRANSIT CAPITAL NEEDS

Project Type		Capital Needs[1]	Percent
Bus		$ 7,725	21.2%
Facilities	$ 3,929		(50.9%)
Vehicles	$ 3,796		(49.1%)
Rail		$28,730	79.6%
Modernization	$15,088		(52.4%)
Extensions	$ 3,783		(13.1%)
New Starts	$ 9,859		(34.3%)
TOTAL		$36,455	

[1] 1984 dollars in millions

The critical findings which have emerged from this assessment, and which were presented to the Subcommittee in detail one year ago, are:

-- Nearly $8 billion will be needed to meet the capital requirements of the nation's bus systems;

-- Bus capital needs are equally split between vehicle replacement requirements and maintenance facility improvements;

-- 30 percent of the bus fleet is past its economic life (12 years); 33 percent of the nation's bus maintenance facilities are over 40 years old;

-- Modernization of our nation's older rail transit systems requires over $15 billion. Even current levels of investment are inadequate to substantially reduce the backlog of modernization needs; continued under-investment may lead to major declines in reliability and safety, and possible system failures in the near future;

-- Nearly 30 percent of the rail car fleet is past its economic life (25 years); 56 percent of the nation's rail maintenance facilities are over 40 years old;

-- Over $13.6 billion is needed to support new rail system and high capacity fixed facility development over the next 5-years; over 30

projects in more than 20 areas around the country are now in formal planning or design to meet otherwise unserviceable travel demands.

The analysis of capital investment requirements over the 5-year period indicated that the majority is needed to address existing needs--over 80 percent of the $36 billion required is needed to properly upgrade already existing facilities and equipment or to provide basic levels of service to meet already existing travel demands. It is also our understanding that the 5-year $36 billion figure is generally consistent with UMTA's own assessment of overall transit capital investment requirements. The similarity of these estimates will be more closely confirmed when UMTA releases the results of the rail modernization study requested by the Senate Appropriations Committee in 1982. It is our understanding that final cost estimates associated with the modernization of existing rail transit systems are very nearly completed.

The ample evidence assembled and presented over the past year on the scope of transit capital needs in this country should, by itself, serve as an adequate indicator of the devastating impact of the Administrative's FY 1986 budget proposal. Yet capital investment is only one part of the picture.

OPERATING REQUIREMENTS

The cost to operate and maintain essential transit services in this country now exceed $10 billion annually. Our most recent estimates, shown in Table 2, indicate how the overwhelming share of this burden - over 90 percent - is already being born by those who benefit directly and indirectly, the riders and state and local tax payers.

Table 2
SOURCES OF SUPPORT FOR TRANSIT OPERATIONS AND MAINTENANCE

Source	Amount	Percent
Fares and Other Earned Income	\$ 4.45 bil	44.1%
State and Local Assistance	\$ 4.78 bil	47.3%
Federal Assistance	\$ 0.87 bil	8.6%
Total	\$10.10 bil	100.0%

1984 estimate.

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The 10 percent overall federal contribution masks some critical factors which lie at the heart of why the federal contribution is absolutely vital and must be maintained:

- Smaller systems are often dependent on federal operating assistance to meet 30-40% of their costs. It is these systems and services that are in greatest immediate jeopardy from a total federal withdrawal; it is these areas that are frequently without the tax base to replace lost federal funds; it is these systems that serve a larger share of low income, transit-dependent users who have few, if any, options to maintain their mobility;

- In large systems, federal operating assistance frequently accounts for 10 percent or less of revenues, but represents large actual amounts of aid--frequently tens of millions of dollars or more; It is just as difficult, if not impossible, for these areas to replace such large amounts of lost federal aid as it is for small areas to replace the high percentage;

- Operating funds are the sole source of support for maintenance activity; if adequate and timely maintenance is to be performed, adequate support for operations must be maintained; if the federally -supported capital investments are to be maintained there should be a parallel federal commitment to the maintenance of that investment;

- In many important instances, increases in transit operating costs are the result, directly or indirectly, of federal requirements and mandates; because these requirements, for the most part, represent worthy national policy objectives, it is reasonable to expect some level of federal support to carry them out.

Transit systems and local officials have achieved considerable success in recent years increasing productivity and controlling costs through a variety of managerial, organizational and service innovations. Intergovernmental support of transit operations at the local, state and federal level has made this possible. Wholesale withdrawal of the federal partner will destroy these achievements and hasten an immediate, unavoidable and massive decline in the extent and quality of basic transit services.

THE FY 1986 BUDGET PROPOSAL FOR TRANSIT

The Administration's FY 1986 budget proposal for transit is now well understood by the industry, local officials and members of Congress. It effectively represents the total withdrawal of

the federal government from the transit program, the abandonment of millions who rely on transit daily, and a broken faith with Congress and local officials over the principles and provisions of the Surface Transportation Assistance Act of 1982 (STAA).

Before assessing the specific impacts of the proposed transit budget, it is worthwhile to briefly outline, for the record, its essential elements. The budget proposes:

1) Slashing overall UMTA funding from $4.1 billion to less than $1.4 billion in a single year--a 67 percent reduction;

2) Slashing major program funding under Sections 3 and 9 from $3.57 billion in 1985 to $1.1 billion in 1986--nearly a 70% reduction;

3) Total elimination of all federal support for operations, maintenance and administration in 373 urbanized areas and 974 small urban and rural systems;

4) Reductions in direct formula capital assistance to 373 urbanized areas of over $400 million;

5) Total elimination of $25 million in capital funding for 858, non-profit providers of service to the elderly and disabled under the Section 16(b)2 program;

6) Reductions from $72 million to $32 million in capital assistance to 974 small urban and rural systems under the Section 18 program.

7) Elimination of $1.1 billion in discretionary capital funding for new systems, rail modernization and major bus projects, and a flat prohibition on any new system development.

It should be no mystery how these massive, immediate reductions will affect transit riders, the communities they live in and the systems that serve them.

There is another dimension to the proposed cuts in transit funding, however, which even better illustrates how the burden of deficit reduction is being placed on transit riders and state and local governments:

1) The proposed transit budget presents barely 1/10 of one percent--.0012--of the federal budget. Yet the proposed cuts of $2.8 billion represent nearly 5½ percent of total spending reductions being sought. Transit cuts are nearly 50 times larger than transit's share of the budget.

2) In 1985 transit represented only 14.3 percent of total transportation spending; the proposed budget would reduce the transit share to 5.6 percent, abandoning any pretense of balanced transportation investment.

3) Total transportation spending is proposed to be cut $3.7 billion; total transit funding is proposed to be cut $2.8 billion. Transit cuts account for nearly 75 percent of the total cuts in transportation.

This type of gross imbalance in attempting to reduce the deficit is both unfair and unwise. It reflects a callous disregard for the needs of our citizens and applies totally unjustifiable double standard with regard to which programs and beneficiaries will be made to sacrifice and suffer.

Administration Rationales

As suggested earlier, there is very little in the way of well-reasoned or well-constructed rationale for what is being proposed in the fiscal 1986 transit budget. Administration documentation provided to Congress in support of the budget proposal contains only general philosophical themes that have been heard before and have proven to be unsupportable, and occasional anecdotes which in no way accurately reflect or characterize the transit industry.

The heart of the rationale is a vague intergovernmental philosophy left over from the Administration's new, "new federalism" concept which states there is no federal interest or role in transit, that transit is a strictly local matter. Both history and recent actions by the Administration itself clearly indicate the reverse:

-- For twenty years, the federal government has articulated, refined and reinforced the significance of transit and the vital nature of the federal interest. The statutory objectives and purposes for the transit program are built around issues of undeniable and broadly accepted national interest, both social and economic;

-- Transit providers are called on directly by law and regulation to ensure the achievement of worthy national policies, often at considerable added cost. Buy America, civil rights, environmental protections, minimum wages and guarantees of service as well as low fares to the elderly and disabled are just a few examples;

-- Finally, despite the vague insistance by OMB that there is no federal interest or involvement in local transit operating decisions, this Administration's own Justice Department went to the Supreme Court to insist that federal wage requirements under the federal Fair Labor Standards Act be applicable to transit, since transit was not, in their eyes, a traditional function of local government.

It is ironic also that other of the Administration's proposed FY 1986 budget actions will significantly increase costs to transit operators at the same time federal support is withdrawn. The proposal to withdraw federal support from AMTRAK--a questionable proposal in its own right--will automatically add over $82 million to the budgets of four major east coast systems who must take over operations on portions of the Northeast Corridor.

It should be obvious that the philosophy on which this budget is based is simply wrong and, more to the point, strongly contradicted by the deeds of the Administration itself.

A second general rationale for gutting the UMTA program is that the presence of federal funds has caused inefficiencies and cost increases in transit service delivery. Without belaboring the point, the reverse is, in fact, the case.

Major facts to consider are these:

-- As the federal transit program grew to its peak from the early 1970's to 1980, transit ridership grew 26 percent, basic services were rescued from collapse in hundreds of communities and fares to the rider were maintained at reasonable levels in response to specific Congressional directives;

-- With respect to control of labor costs, from 1976 through 1984, the percentage wage increase for bus operators has been equal to or less than the wage increases of other workers under major labor contracts for every single year. This occurred while the federal operating program grew to its peak and while ridership reached its all-time, post-war high;

-- During the period 1970 to 1975, before the federal operating program was instituted, productivity measures were in the decline; from 1975 through 1980, coincident with the growth in the federal program, productivity measures show major improvement (1):

	1970-1975	1975-1980
Passengers/Employee	- 7.6%	+ 14.4%
Passengers/Vehicle Mile	- 2.0	+ 18.0
Vehicle Miles/Employee	- 5.7	- 3.1
Operating Expenses (Constant $)	+ 36.6	+ 5.0
Expense/Passenger (Constant $)	+ 36.0	- 14.9
Expense/Vehicle Mile (Constant $)	+ 33.3	+ 0.5

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(1) Based on analysis of 44 systems representing 65 percent of national vehicle miles of service and 70 percent of all passengers carried.

The claim that federal support has caused declines in productivity and efficiency is simply incorrect. Federal support has promoted increased ridership, increased productivity and ensured basic levels of mobility throughout the country.

A third general rationale for slashing the transit program is the claim that support is unwarranted because direct users do not pay fully for the service they receive and that the program predominately serves high income, white collar, suburban commuters. Again, several points can be made:

-- Direct transit users pay 40 percent of the operating cost through the fare box; indirect beneficiaries--state and local residents--pay another 47 percent; nearly 70 percent of the UMTA program is equitably returned to areas via a formula which is based on population and extent of service in the region. Users and beneficiaries are paying their fair share and receiving a fair level of support from the federal program.

-- A narrow user-fee philosophy should not be the primary test of the need for or legitimacy of programs or policies, as the DOT budget implies. A host of major programs of long-standing federal interest require citizens of one region to support the needs of citizens in another, all to achieve undeniable national social and economic goals, e.g. non-consumers support tobacco and other agricultural subsidies; childless couples and individuals pay property and other taxes to support education; the midwestern farmer's taxes support coastal zone management and coast guard activities. The list can go on and on and would include the fact that more populous states heavily subsidize the extensive federal aid highway costs of less populous states. Even in the private sector, cross-subsidies frequently exist among productive units of a single organization.

  We are a highly integrated society in our social, economic and governmental interdependencies. Major federal policy, budget and investment decisions driven totally by a user-pays mentality are naive, disruptive and divisive.

-- Transit is decidedly <u>not</u> a service catering predominently to the high-income, white collar suburban commuter. Up-to-date figures on the profile of today's transit riders are provided in the following section in order to clearly demonstrate the broad ranging characteristics of today's transit riders and the substantial core of riders that is low-income, transit-dependent or otherwise disadvantaged.

As a final point in the Administration's rationale for withdrawing support for public transit, we have noted a statement suggesting that, 'the mass transit problem has been partially solved.' One need look no further than the data summarized on page 3 in this statement on the current condition of our nation's transit facilities to see the absurdity of such a statement. Even at current levels of support from the federal government, the existing backlog of critical transit investments cannot be substantially reduced. To withdraw, claiming victory is an insult to the Congress, the transit industry and, most important transit riders.

Again, the Administration's entire budget proposal for transit rests solely on vague philosophy and occasional anecdotes that are gathered together to intentionally misconstrue the facts and mislead the reader. There is no credible rationale whatsoever to support the immediate, massive cuts proposed for transit and virtually no acknowledgement, understanding or apparent concern over the impacts.

IMPACTS OF THE PROPOSED TRANSIT BUDGET

That the impact of immediately reducing federal support for transit by 70 percent would be disasterous for riders, communities and business should surprise no one. Transit systems as well as state and local governments operate on the margin, with virtually no cushion to absorb the kinds of reductions being proposed, either in the transit program or in the host of other domestic programs slated for major cuts or elimination.

The impacts can be characterized in a variety of ways, by looking at who the riders are that will be harmed most, by looking at the likely impact on actual transit services and by looking at the impacts on the economy and business community.

Who Will be Harmed?

The primary mission of public transit is to provide a basic level of mobility to those who have no other means of travel and to provide effective options to those who do. In serving these two people-oriented objectives our broader social and economic objectives are served as well.

A host of misconceptions exist about who uses public transit. Many of these misconceptions are being fed by the Administration in its attempt to use anecdotal information to inaccurately characterize public transit. One example is their suggestion that public transit predominately serves the commuting needs of high income, white-collar professionals. This is totally inaccurate and, in fact, directly contradicts estimates made by the Department of Transportation itself.

The truth of the matter is that public transit serves the broadest possible spectrum of needs and people. More importantly, the core of today's ridership is composed of those who are wholly or highly dependent on transit for their basic mobility. Transit is, in a very real sense and always has been, a critical part of the 'social safety net.'

Results of ongoing survey efforts among transit systems across the country graphically demonstrate the degree to which transit is a basic lifeline for the low-income and disadvantaged. Even the Administration's own assessment of transit ridership characteristics strongly supports the figures noted below. (2)

Recently assembled ridership statistics from 140 transit systems which operate over 75 percent of the nation's transit vehicle fleet Reveal the following ridership profile:

- 60% of transit's riders have incomes under $20,000 per year; 33% have incomes under the poverty level of $10,000 per year;

- The Administration's own estimates are even higher--71% under $20,000 and 40% under $10,000;

- 28% of transit's riders are in age categories (under 16 and over 65) with limited access to automobiles and/or diminishing ability to use them;

- 16% are over 65 years old, a population group expected to grow substantially in future years;

- Administration estimates closely parallel these figures on age of riders;

- Nearly 60% of transit riders are female;

- Nearly 40% are minority;

- 54% of trips made on transit are made for work purposes, reinforcing the economic significance of transit for both employees and employers;

- The remaining 46% are for a variety of non-work purposes, including shopping, personal business, medical social, etc., indicating the role of transit in supporting the social and cultural fabric of the nation.

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(2) See assorted tables, pp. 25-31, contained in the Administration's report to Congress, "The Status of the Nation's Local Public Transportation: Conditions and Performance," Report of the Secretary of Transportation to the U.S. Congress, pursuant to Section 310 of the STAA of 1982, submitted in September, 1984.

In looking at this brief profile of transit ridership it should be clear that public transit is an essential service both socially and economically. If the drastic cuts proposed by the Administration are enacted, the largest share of the impact will be born directly by those least able to cope. The social safety net has already been stretched to the breaking point. Eliminating transit aid and unraveling the few threads that remain would be an unconscionable act of total disregard for the needs of our nation's most vulnerable citizens. The question of fairness is central to a discussion of the transit cuts.

What are the Impacts on Systems and Services?

The direct and immediate impacts of the Administration's proposed transit cuts on riders are driven, in large part, by the direct effect on transit systems and services.

APTA member transit systems were surveyed on the likely impacts of the proposed cuts. Survey results from over 150 systems which carry 75 percent of the nation's transit riders are unequivocal--the impacts will be devastating, they will be immediate and they will be broad-based. It is absurd for anyone to suggest, that the results of an immediate 70 percent reduction in funding could possibly be otherwise.

In general terms, the survey indicated that riders will be stranded by the millions, including transit-dependent, elderly, handicapped, low income and those too young to drive, as well as workers who have until now, been able to leave their cars at home. Badly needed rehabilitation and maintenance investments will be delayed or foregone entirely, precipitating rapid declines in service quality, reliability and safety.

Major new capital investments badly needed to serve rapidly growing areas of the county where street and highway networks are already over capacity will be indefinitely delayed or abandoned. Massive service cuts will be inevitable with a considerable number of local area systems, both large and small, facing complete collapse. Where services can be retained, fares would have to be raised immediately, often to unprecedented levels just to maintain even skeletal levels of service.

Drastic impacts from the proposed cuts are no longer limited to smaller systems which have traditionally been more dependent on federal support. Transit systems, of all sizes, their riders and the communities they serve, including many of our nation's major metropolitan areas will be dramatically effected.

Although transit systems were not asked directly if they would shut down, nearly 20 percent noted specifically, on their own, that a shutdown was an imminent possibility. Fully 90 percent used terms such as "catastrophic," "dramatic," "drastic," etc. in characterizing the effects of the proposed budget cuts in their region. Details from the survey are highlighted below.

o When asked about the impact of total elimination of federal operating assistance, transit systems indicated:

-- 88 percent will be forced cut service dramatically;

-7 of every 10 systems will cut services more than 20%

-Nearly 1 in 3 systems will cut service more than 50%

-1 system in 7, mostly in smaller areas under 200,000 population, will cut service 90 percent or more;

-- 82 percent will be forced to raise fares substantially;

-Nearly ¼ of those, mostly small systems, predicted increases of 90 percent or more;

-Nearly ½ projected increases of 50% or more;

-These increases will occur on top of a national average base fare of nearly 60¢, currently;

-- 87 percent anticipate major declines in ridership; 6 of every 10 systems predict ridership losses of 20% or more;

-- the percentages of systems expecting major fare increases, service cuts and ridership losses was consistent among systems of varying size;

-- 78 percent anticipated substantial reductions in mobility for transit-dependent populations in their areas; direct effects on elderly, handicapped, low income and the young were noted consistently in areas of all sizes;

-- Nearly 2/3 predicted tangible, negative impacts on their local economies.

o When asked about the impact of major reductions in federal capital assistance, transit systems indicated:

-- 70 percent would be forced to forego the purchase of new bus vehicles;

This, despite the fact that over 30 percent of the nation's transit bus fleet is past its useful economic life of 12 years.

This response alone could kill the nation's domestic bus manufacturing industry, already on brink of disaster from 4 years of threatened federal withdrawal which has reduced the U.S. transit bus market from nearly 4,500 vehicles per year in 1981--the level necessary to replace over aged vehicles--to less than 2,000 in 1984.

-- 30 percent would be forced to forego vital rehabilitation or replacement of maintenance facilities;

This, despite the fact that:

-22 percent of the nation's bus maintenance facilities are over 60 years old;

-33 percent are over 40 years old;

-17 percent have severe capacity restrictions even at current operating levels;

-- 5 regions would completely forego rail system construction;

-- 5 existing rail systems would be forced to forego urgently needed major rail modernization activity.

o The result of greatly reduced federal capital investment will exaggerate the overwhelming impacts of the elimination of operating assistance:

-- 58 percent indicate service levels will be further reduced by capital funding reductions;

This effect is stronger in medium and larger areas where 68 percent of the systems responding note service reductions stemming from the loss of federal capital funding.

-- 60 percent foresee declines in the quality and reliability of service, in addition to reduced levels of service;

-- 84 percent of the larger systems project decreases in service quality;

-- 63 percent note that their ability to maintain equipment will be adversely affected by reductions in capital funding.

<u>What are the Economic Impacts of the Cuts?</u>

The impacts of the Administration's proposed withdrawal from the federal transit program extend well beyond the direct effects

on riders and services. Massive reductions in the transit program will impact every segment of the economy. Without question, the reductions will be counter-productive to the achievement of further economic growth and will create a drag on economic performance of which the Administration is apparently unaware.

Based on detailed analysis of the economic impact of transit investments carried out by APTA in 1984 using Commerce Department data and models, the following impacts are projected:

-- For each $100 million of capital funding lost,

-a loss of 7,600 jobs;

-a loss of $327 million in business revenues;

-- For each $100 million in operating support lost,

-a loss of 9,600 jobs;

-a loss of $305 million in business revenues.

<u>The aggregate impact of the Administration's proposed transit cuts would, therefore, cost 203,000 jobs and a loss of $8 billion in private business revenues</u>.

Private businesses which supply goods and services to the industry were also asked what impact the Administration's transit budget cuts would have on their businesses. These results serve to reinforce the counter-productive nature of the proposed cuts in terms of fostering national economic stability and growth. Of the manufacturers and suppliers surveyed:

-- 70 percent view the proposed capital cuts as "severe" or "disasterous" for their business;

-- 46 percent anticipate plant or office closings as a result of capital cuts;

-- 87 percent project layoffs averaging 13 percent of their present personnel;

-- 73 percent project immediate, direct revenue losses of over $300 million, or close to $1 billion if multiplied throughout the entire economy;

-- 45 percent anticipate <u>withdrawal</u> from the urban transit market.

The perspective that is absent in the Administration's philosophy has been articulated most eloquently by members of

Congress, local officials and state officials in recent weeks. That is, support of domestic programs generally, aid to state and local governments and assistance for public transportation specifically, should be viewed as fundamental investments which are essential to support our nation's social and economic structure in ways that are every bit as vital as our defense expenditures. Investment in public transportation must continue to be viewed as part of the solution rather than part of the problem; failure to do so and the precipitious withdrawal of support for domestic programs like transit will only serve to increase our problems.

Based on the survey results summarized above, reductions of the scope being proposed for the transit program will cause drastic reductions in mobility, weaken our general economy and possibly destroy our domestic capability to meet future mobility needs.

SHIFTING THE BURDEN TO STATE AND LOCAL GOVERNMENT

Much of the recent rhetoric concerning major cuts in domestic programs and assistance to state and local governments revolves around claims by the Administration that state and local budgets are showing surpluses that can accommodate the withdrawal of federal support. Without going into detail it appears as though the arguments and analysis offered by the Administration have been refuted by state and local officials.

Based on comments of APTA transit system members and manufacturing members, as well as the information now available from state and local officials, it is obvious that massive federal cuts <u>cannot</u> be made up from state and local sources.

In our survey of the transit industry, we pointedly asked whether the proposed transit cuts could be replaced from other sources. The results are clear--they cannot. Almost nowhere, either among transit system operators or businesses serving transit systems, is there a realistic expectation that any combination of increased local, state or even private funding can replace the near total elimination of federal support:

-- 90 percent of the transit systems surveyed said neither local nor state sources individually could replace lost federal operating or capital assistance;

-- 79 percent said the <u>combination</u> of local and state sources could not replace lost federal operating aid; 90 percent said the <u>combination</u> could not replace lost capital assistance;

-- Most telling of all, when asked if combined <u>local, state, and private</u> sources could make up the federal cuts, 77 percent said 'no' with respect to

operating aid and 86 percent said 'no' with respect to capital funding.

-- 89 percent of the manufacturers and suppliers of transit equipment and services do not believe local and state governments will be able to replace lost federal capital aid.

These are strong, near-unanimous sentiments from careful observers of the state and local scene. These views are reinforced in recent analyses of the fiscal condition of state and local government done by the National Governor's Association, the National Association of State Budget Officers, the National Conference of State Legislatures, the National League of Cities and the U.S. Conference of Mayors. Their representatives will, no doubt, provide the Subcommittee with a more detailed and compelling review, but the key facts are these:

-- State 'surpluses' have increased largely because of emergency tax measures and emergency service cuts enacted during the depths of the recession as a matter of prudent and responsible management of a major fiscal crisis;

-- Continued sound and responsible management will require these actions be reversed and basic service levels be restored before new responsibilities can be shouldered;

-- The end-of-1984 state 'surplus' was $6.3 billion, 3.9 percent of budget. This is still substantially below the 5 percent figure Wall Street deems a safe, prudent margin;

-- Only 18 states had a 'surplus' over 5 percent at the end of 1984; only 8 states accounted for half of the 'surplus;'

-- The projected 'surplus' will fall in 1985;

-- With respect to transit, of the 18 states with a 'surplus' over 5 percent, only 4 can be considered major transit states;

-- The largest 'surpluses' occur in states typically without major transit needs; the states where transit needs are greatest, have the smallest 'surpluses'.

City and county governments are in no better position than the states to absorb the huge transit cuts being proposed. Their revenue collection capacity is severely constrained in the vast majority of cases. Ironically, it may be further constrained by the emerging tax policy of this Administration which would either eliminate various financing options or raise their cost to local

government significantly. In the mean time local governments continue to struggle in meeting the public facility and service needs of ever-growing central city populations of the poor, the unemployed, the hungry and the homeless.

It is clear for the time being, that state and local officials, including transit managers and policy makers, have sacrificed and struggled to retain basic levels of public service. Rather than reward these achievements and insure that basic public services like transit remain in place, the Administration's budget is punitive, further punishing those who have already sacrified the most. The result will not be a replacement of lost federal aid, but a further wholesale decline and elimination of essential public services, transit among them.

TRANSIT'S PAST CONTRIBUTION TO DEFICIT REDUCTION

Public transit operators and riders have made a substantial contribution to deficit reduction since the current Administration took office in 1982. Appropriations for the major federal transit programs totaled $3.718 billion in 1981 ($4.462 billion in 1985 dollars). Last year actual appropriation levels for these programs totalled only $3.570 billion. In 1985 dollars, transit funding has been reduced $892 million since 1981--a 20 percent reduction and nearly a billion dollar contribution to deficit reduction.

In addition, $1.2 billion in gas tax revenues accruing in the Mass Transit Account of the Highway Trust Fund will have been denied to transit systems by the end of 1986 under existing obligation limitations. Inability to utilize these funds brings the total transit contribution toward deficit reduction over $2.0 billion if 1986 funding were frozen at 1985 levels.

If other programs and budget functions had made similar contributions, there likely would be no deficit problem today. Constructing a fair and effective budget for 1986 should include consideration of the substantial contributions already made in a variety of federal programs, including transit.

SENATE BUDGET COMMITTEE PROPOSAL

In recent days the Senate Budget Committee has approved an FY 1986 budget proposal which differs sharply in a number of areas from that submitted by the Administration. Early deliberations by the Budget Committee resulted in support for a freeze at 1985 levels for public transit. We strongly endorsed that proposal and provided to the Budget Committee what we continue to believe is a sound rationale for support of a freeze in transit funding.

Unfortunately, in straining to meet its pre-established mark, the Budget Committee revisited its earlier decision and ultimately enacted a substantial, 25 percent cut in the transit

program. While this action represents another strong repudiation of the Administration's transit proposal, it continues to promote inequities among individual programs and, more importantly, inequities in how the people who are benefitted by those programs will be affected.

A 25 percent cut in federal mass transit assistance is no more justified than was the Administration's proposed 70 percent cut. Singling out a few individual programs like transit for major, arbitrary reductions merely represents an expedient step in the process; it does not represent sound or well-thought out policy.

For an essential public service like transit, for the hundreds of communities now served by public transit, and for the millions of people who depend on public transit daily, an immediate 25 percent reduction in federal support merely represents a decision to prolong the demise of public transportation rather than simply administer the coup de grace as the Administration has intended. In considering the Budget Committee's proposal, there should be no mistaking the fact that a reduction in transit funding of 25 percent will initiate the same downward spiral of increased fares, declining ridership and deteriorating service that larger reductions would precipitate. The only difference is the length of time it will take to complete the cycle.

The Budget Committee has discharged its initial responsibility; it has made some difficult initial choices and has found some expedient avenues by which to produce the desired, arbitrary level of total spending reductions it has sought. The result is an overall budget proposal that greatly improves on that submitted by the President. It falls well short, however, in terms of providing balance and equity in domestic programs, and it abandons careful policy considerations for a preliminary arithmetic solution.

It remains for this Subcommittee, in its substantive policy-making role, to ensure that some measure of equity, fairness and balance is restored to the domestic side of the budget in upcoming floor deliberations. We believe that an across-the-board budget freeze for 1985, including a freeze in transit funding at 1985 levels, is a critical and fully justified position and will work closely with members of the Subcommittee in assessing alternative budget proposals and achieving such a freeze.

SUMMARY

This Subcommittee, the full Committee and Congress was wise in the development and passage of the Surface Transportation Assistance Act of 1982. We continue to believe that the STAA represents an important, forward-looking and reasonable federal commitment to the long-standing transit partnership--a commitment that can be fulfilled in concert with both social and economic goals and the need to achieve reductions in the deficit.

It is regrettable, however, that the Administration has chosen to support only selective portions of the law and to disregard the language and intent of other sections. Contrast the testimony of FHWA officials on how proud and responsibly the Administration is fulfilling the highway provisions of the STAA with the total disregard of OMB, UMTA and other top Administration officials for the transit provisions. The Administration's budget, in fact, cannot be implemented without passage of authorizing legislation that would gut Title III of the STAA.

We fully support and applaud the efforts of the Administration to live up to the highway provisions of the STAA. But what is sauce for the goose should be sauce for the gander. We desire, as I am sure members of this Subcommittee desire, nothing more than adherence to the intent of the law and good-faith actions to carry out that intent fully, and in a timely manner.

In closing, we look forward to the support of the Subcommittee and full Committee in development of a fair and equitable budget proposal that retains the essential federal role in the 20-year intergovernmental transit partnership. We urge the Subcommittee to flatly reject the Administration's budget proposal for transit and to search out a more balanced and well-reasoned approach than that proposed by the Senate Budget Committee.

Finally, in the long-term, we anticipate working closely with members of the Subcommittee and full Committee in shaping a transit reauthorization proposal that can both sustain the federal role in support of transit and can assist in reducing the budgetary impacts of the transit program at the federal level.

We appreciate the opportunity to provide these comments for your consideration.

Mr. FRANK. To expand on our views we have assembled witnesses who not only represent the leadership of APTA but who are, themselves, operators and directors of transit systems.

With me today is Rose Besserman, city councilwoman, city of Vancouver, WA, a member of the board of directors of the Clark County Public Transportation Benefit area in Vancouver, WA.

We also have Richard Simonetta, executive director of Ann Arbor, MI, Transportation Authority.

And to assist in responding to your questions, we have Jerry Premo, executive director of the New Jersey Transit Corp. and the chairman of the APTA legislative committee.

And as well, we have Jack Gilstrap, our executive vice president of the American Public Transit Association.

I would like to now ask Ms. Besserman to speak in our behalf.

Senator HECHT. Ms. Besserman, I come from Clark County, NV, so we have two Clark Counties in America.

Ms. BESSERMAN. There are probably more.

Senator PROXMIRE. You have one in Wisconsin, too.

Senator HECHT. Please proceed.

Ms. BESSERMAN. Thank you.

STATEMENT OF ROSE BESSERMAN, MEMBER OF THE CITY COUNCIL, VANCOUVER, WA

Ms. BESSERMAN. Good afternoon, Senator, members of the subcommittee. And thank you for giving me this opportunity to focus on who uses public transit and how they will be affected if the administration's budget is allowed to stand.

PUBLIC TRANSIT SERVES BROAD SPECTRUM

Contrary to what some would have us believe, public transit serves the broadest possible spectrum of people and needs. We are a critical weave in the social safety net which the President has said he wants to leave in place.

A recent APTA study shows that 60 percent of transit riders have incomes under $20,000 a year. A third are under $10,000; 16 percent are senior citizens, and 40 percent are minority and 60 percent are women.

The majority of transit trips are made to and from work to enable our riders to retain self-sufficiency.

We asked our member systems to assess the probable effects of this budget. The results are unequivocal. The impact will be devastating, immediate, and broad-based.

Massive cuts in service will be inevitable. In some instances, local systems face complete collapse. Where service can be maintained, fares would have to jump to unheard of levels and this would drive riders away.

The sharp reduction in Federal capital funds will mean that 70 percent of the systems will have to forego the purchase of new buses. If this happens, it could effectively destroy the Nation's domestic bus manufacturing industry, which is already on shaky legs.

Senator, we want to see our Nation's economy, recovery, continue. But this budget will have a negative effect on every segment of the economy.

We estimate that the proposed withdrawal of transit funds would cost more than 200,000 jobs and result in a loss of more than $8 billion in private business revenue.

We should view the Federal Transit Program not as a wasteful subsidy, but as a productive investment in our future. As much as our Nation needs a military defense, we also must have a social defense and protect our economic and social way of life.

We ask our members, both operators and suppliers who are close to local government, to assess whether they expect that any combination of increased State, local, or even private funding, can replace what the administration proposes to eliminate. Now, 77 percent said no with respect to operating aid; 86 percent said no with respect to capital funding.

In closing, Senator, we look to you and to this subcommittee for support in swiftly and totally rejecting these budget cuts and the related legislation necessary to implement them.

We ask for no special favors, only fairness and equity. We also look forward to working closely with you soon to shape a reauthorizing proposal that will sustain the Federal role in support of transit.

Thank you for your attention. Thank you for your patience.

Senator HECHT. Thank you.

Mr. SIMONETTA. Good afternoon, Senator Hecht.

Senator HECHT. Good afternoon.

STATEMENT OF RICHARD J. SIMONETTA, EXECUTIVE DIRECTOR, ANN ARBOR TRANSPORTATION AUTHORITY, ANN ARBOR, MI, CHAIRMAN, APTA PRODUCTIVITY, PERFORMANCE, AND INCENTIVES SUBCOMMITTEE

Mr. SIMONETTA. Members of the committee.

PRODUCTIVITY

I would like to speak briefly on a matter that I know is of concern to this subcommittee and also to you especially, Senator Hecht, and that is productivity. One of the rationales that was chosen in support of the budget cuts for transit is that the presence of Federal assistance has actually caused deficiencies and cost increases in the delivery of transit services. And quite simply, this just isn't true.

We have succeeded, with Federal aid, in eschewing basic transit services from collapse in hundreds of communities nationwide. And in this process, we have been good stewards of Federal assistance. Coincident with the growth in the Federal programs, productivity measures showed major improvements, and I'd like to give you a few examples. Between 1975 and 1980, the period of greatest growth in Federal assistance, the number of transit passengers per employee grew 14 percent. Passengers per vehicle mile improved by 18 percent. Our total expense per passenger dropped 15 percent in constant dollars and most dramatically, Senator, between 1976 and 1984, the percentage wage increase for bus operators has been equal to or less than the wage increases of other workers under major labor contracts in every single year during that period.

For the 5 years before Federal operating support was available, every one of these indicators had a negative trend. The claim that Federal support has cost declines in productivity and efficiency is simply wrong. Federal support has promoted increased ridership and productivity and ensured fundamental mobility for millions of our citizens throughout the country. We also often hear a claim that the Federal Government has no business in transit, that mobility is primarily a local responsibility. Why then did the administration's own Justice Department go to the Supreme Court this year to insist that the Federal Fair Labor Standards Act apply to transit employees?

One final rebuttal to a question that is often posed, and this was raised earlier by Senator Proxmire. Why should taxpayers of one region support needs of citizens in another. We think the answer is quite simple. We are a federation of States, and citizens of one region support the needs of citizens in another to achieve overriding national social and economic goals. This is the case in other programs such as agricultural subsidies, water projects, and even highway programs.

Finally, allow me to put this budget request in context. The budget request for transit is only one-tenth of 1 percent of the total U.S. budget, but we are targeted for more than 5 percent of all spending reductions. This is 50 times larger than our proposed share of the budget. And transit cuts account for nearly 75 percent of the total reductions in overall transportation funding.

Thank you, Senator.

Senator HECHT. Thank you very much.

In the coming weeks, this committee will be required to make some very difficult choices in our efforts toward achieving the necessary reductions mandated us by the Budget Committee. A budget freeze would not allow us to reach the mark even with defense programs included. The Budget Committee acted because they know the real crisis that looms ahead, if we do not act responsibly toward reducing the $200 billion deficit that is staring us in the face. It simply could not be fair for this committee to make further reductions in housing assistance to the very poor while preserving mass transit funding levels.

When we come to the point of making our mass transit cuts, what are your priorities amongst operating assistance, formula grant for capital needs and discretionary grants?

Mr. Premo.

STATEMENT OF JEROME C. PREMO, EXECUTIVE DIRECTOR, NEW JERSEY TRANSIT CORPORATION, NEWARK, NJ, CHAIRMAN, APTA LEGISLATIVE COMMITTEE

Mr. PREMO. If I may, Mr. Chairman, our concern is that the committee consider what Mr. Simonetta just mentioned. The fact is that 75 percent of the cuts at DOT are proposed in public transit funding. We don't think that is fair or equitable. We don't think that one-tenth of 1 percent of the U.S. budget set aside for public transit is reasonable investment in the future of balanced transportation in this country. In fact, we have, as part of our overall testi-

mony submitted for the record, Mr. Chairman and members, information on the longer term needs of public transit in this country.

As we look to the other nations in the world, Japan, France, Germany, Switzerland, and England, countries that have quality public transit, we see a far higher Federal investment than we are putting out in this country. Our view is similar to that expressed by those who preceded us from the cities, namely, that a freeze is an appropriate approach. If cuts need to be made, we think that public transit should be treated in a fair and equitable way rather than be whacked as aggressively as is proposed in this budget.

UNSPENT FUNDS

Senator HECHT. Thank you. I have been informed that large amounts of transit dollars remain unspent by various transit systems across the country. The present program allows transit systems to hold these funds for at least 4 years.

How do we reduce this amount of unspent funds, in order to utilize them more efficiently for cities where a more immediate need exists? Who would like to answer that?

Mr. PREMO. If I can start, Mr. Gilstrap has some comments.

Senator HECHT. Yes.

Mr. PREMO. One approach would be for UMTA to approve grants which are pending before it right now. We have a situation where some of the unexpended balances are carryover dollars from last year. Applications were submitted last year, but for a variety of reasons, UMTA was not in a postion or chose not to approve those grants which were available under the Formula Grant Program. One of the answers is for all of us to move out more aggressively and not commit 50 percent of the dollars under the Federal Transit Program until the last month of the fiscal year, as is—or was the case last year.

Jack, you may want to——

Mr. GILSTRAP. Thank you. Mr. Chairman, I would first off say that we feel that the program is working very, very well, that our spend out rate is a good one. It's as good or better than highways, airports, and sewers, and I might say it was interesting to see in a recent report that the Department of Defense has $243 billion of 1985 money still unspent, something over $50 billion of that even unobligated. I think that no changes are necessary or desirable in that program. The 4-year period is very important to some of our transit systems. You're a smaller system, you're planning to build a project, say a new garage that may take $3, $4, or $5 billion—excuse me, million.

Senator HECHT. When you get to Washington, you start talking that way, don't you? [Laughter.]

Mr. GILSTRAP. You certainly do. I used to live in Los Angeles, and I figured when I flew across the Mississippi, you add at least 3 to 6 zeros to anything you're thinking about.

But you need that additional time. Let's say you get $1 million a year in your capital, and you're going to build a facility of $3 to $5 million, you need to save it for 3 or 4 years. And that's why the flexibility is in the law. We think it should remain that way.

Senator HECHT. Thank you. The administration has suggested that private carriers be allowed to take part in servicing the mass transit needs of the community. I think this is a very progressive idea and was surprised to learn that private initiatives had been discouraged in this area.

INVOLVEMENT OF THE PRIVATE SECTOR

How can we encourage and increase private sector involvement in the providing of mass transit? Ms. Besserman.

Ms. BESSERMAN. Senator, you can't. The reason that we are in the transit business is because private industry gave up and went out of business. We had to take it over, in order to keep our people, who simply could not drive cars, mobile.

Senator HECHT. Mr. Frank, do you have something to say.

Mr. FRANK. Yes, I'd like to add to that. We in central New York are presently very much involved with privatization. We were there before it became in vogue. We use taxicabs for our call-a-bus service. We use certain other transit operators in lease-type arrangements, and we've had an interface with privatization for years. As I said earlier, we received two awards in the past 2 years from the President of the United States for our efforts. I'll give you two more quickies. We had one just this past weekend, where a furniture store bought out our entire transit system for St. Patrick's Day, and we never had a bigger day or a better program in our life. We've had the day after Thanksgiving. We have the Merchants Bank in Syracuse, NY, that buys out our transit system, and gives free rides, on the day after Thanksgiving which is the largest shopping day of the year to all riders within Onondaga County.

These are involvement with privatization.

Senator HECHT. Yes, Mr. Premo.

Mr. PREMO. Mr. Chairman, if I may supplement. Thank you. Nearly 50 percent of our member—members of the Public Transit Association in some fashion already contract out, whether it's for specialized transportation for the handicapped or for maintenance or for some other services. I might note that in the State of New Jersey that over $50 million in capital equipment has been provided to private carriers at no cost to those carriers, so that we can maintain an appropriate and proper balance between the role of private carriers and those of the public carriers.

The fact, though, is that we're dealing at the margin on this issue nationally, to suggest that privatization will in any fashion deal with the $2.5 or $3 billion of cuts that the administration, I think, is to miss the target. There certainly is a bit more that we can do nationally in this area, and it's incumbent upon all of us to aggressively seek out opportunities, but as was indicated previously, we find ourselves in this business in many instances because of the inability of private carriers, both bus carriers and, importantly, in the big areas in the Northeast, because of the failure of the private railroads to be able to do the job.

Senator HECHT. My time is up. Did you have something to say, Mr. Gilstrap?

Mr. GILSTRAP. I'm sorry, sir.

Senator HECHT. I say my time is up, but if you have something to add to the last question.

Mr. GILSTRAP. No, sir.

Senator HECHT. I will have some questions submitted to you, and I would appreciate some answers back.

[Response to written questions not received in time for publication.]

Senator HECHT. Senator Proxmire.

Senator PROXMIRE. Thank you, Mr. Chairman.

Mr. Frank, you're a New York stater; right? Syracuse.

Mr. FRANK. I'm a Syracusan.

Senator PROXMIRE. I'm sure you've ridden that subway in New York City.

Mr. FRANK. On occasion.

Senator PROXMIRE. Well, I've ridden it too, not for a long time. You folks are all too young to remember this, but back in the late 1930's and early 1940's, I remember riding that subway in New York. I was working in New York then, and it was a nickel. A nickel. And it would take you 15, 20 miles for only—we haven't had anything like the kind of inflation that would justify the increase they've added. Now it's 90 cents. And there was no Federal subsidy then at all. None. And now, of course, we have a very, very substantial Federal subsidy, a whale of a proportion of the capital is paid for by the Federal Government and much of the operating is paid for by the Federal Government.

How do you explain the fact that now you folks say that you're going to be ruined. People tell us—the previous witness said that if you raise the fare, nobody will use it. John Lindsay used to come down here, and say "If we have to raise the fare over"—at that time, it was 15 cents or so—he said, "Nobody will ride the subway." Now it's 90 cents, and they've got just as many people riding it as before.

What's the answer.

Mr. FRANK. Well, Senator Proxmire, first of all, it's a pleasure to appear in front of you. You're a national figure, and it is a honor to be here today.

Senator PROXMIRE. Well, you have my vote. I can't agree with you on this issue, but you're a great guy too. [Laughter.]

Mr. FRANK. And I also thank your for the compliment, that I'm too young to remember it. I just celebrated my 60th birthday the other day.

Senator PROXMIRE. Well, you're a kid.

Mr. FRANK. However, I rode this subway when it was 5 cents, and you didn't have a string of superhighways at that time. You had people that were truly transit-dependent. It was right after the Second World War. They couldn't get cars during the war, and there was a major difference in operation. When you speak of New York City, you speak of one group of problems. When you speak of the other transit systems here, other than Jerry Premo's, you're talking about another group of problems. They're totally separate.

In comment to the subway system, certainly there has never been a greater need—there was a greater need at that time, but now there's a greater need for the truly transit-dependent people that can't afford those increases.

In Syracuse, as an example, if we lose our operating assistance, we will lose almost 25 percent of our revenue, and with our city problems that they have, they could not pick this up, and I don't know that the county or the State would. They've got to make some really difficult decisions.

Senator PROXMIRE. Well, I appreciate that. Of course, as you know, we come on with a Federal subsidy at fairly recent years. In 1960 or so, we had the capital subsidy. In 1972, which is fairly recently, we have had the operating subsidy. We now have a situation where in many cities, I understand, the Federal share of operating expenses equals or exceeds the contribution from users. Up to two to three times as much.

How can we be sure that services are really necessary and productive, when the users of the service pay as little as 20 percent or 30 percent of its cost?

Mr. FRANK. I think a fair fare has to be introduced. It has been introduced, and I think that all of my colleagues here feel the same as I do, that to be reasonable, a fair fare should be, at 50, 60 percent of the cost.

Senator PROXMIRE. Do you want to comment, Mr. Premo?

FEDERAL SHARE

Mr. PREMO. If I may, Senator. To put the Federal share in some context, public transit is a $10 billion operation around this country, and the Federal share of $875 million is obviously less than 9 percent of the total cost of operating public transit in the country. That Federal share varies greatly. In New York, it's 4 percent of the total budget. In smaller communities, in particular, it represents a far greater percentage.

In specific response to your question, how can we ensure that we're not wasting money in its harshest sense, taxpayers are picking up the difference. Farepayers also happen to be taxpayers, and in communities around the country, that balance of how much should be charged to the farebox and how much through the tax rolls is a juggling act that is settled in different places.

The Federal amount comes to communities through a formula, and there is a limit on how much Federal money can be spent. Finally, that Federal money isn't spent just on fare subsidies, but rather it's devoted to the costs of operating and maintaining the system. Just like we spend interstate highway funds now to maintain the interstate we previously built, transit dollars are being spent to maintain the public transit infrastructure that we've supported in the past.

Senator PROXMIRE. But of course, Mr. Premo, as you know, we have many communities in this country that have no public transit, small towns don't have it. When the local government subsidy is as little as 5 to 10 percent of the cost of the service, and that small contribution leverages $10 to $15 State and Federal to each local $1, terrific leverage, how can we be sure that the service is really needed and not just a good financial deal for the local government trying to maximize the inflow of dollars?

Mr. PREMO. Well, I think that the 950 or so rural transportation systems that are in addition to the 300 urban systems in this coun-

try are a powerful collection of people-moving organizations, and the people who make decisions about their budgets are individuals who were in the room earlier, here now. They are State legislators who also, in some instances, local people, I'm confident that the checks and balances at the State and local level are ensuring a productivity in transit. As Rick indicated earlier, our numbers are dramatically better than they were in the 1970's. Our productivity numbers are really turning around.

Senator PROXMIRE. Let me ask Mr. Frank—I'm not sure who should answer this, you're kind of the traffic cop. Maybe you can help me with it.

Early in February, APTA issued a press release purporting to report on the results of a survey on the potential effects of the administration's proposed budget reductions in mass transit. I understand that APTA has not responded to UMTA's request for a copy of the survey and the results that were summarized in the press release.

Is there some reason that you are unwilling to make this information available to UMTA, and would it be possible for you provide to this committee, for the record, a copy of the survey questions, a list of the properties and firms who were sent the survey, the survey responses and your tabulation of the overall results? Can you do that?

Mr. FRANK. Mr. Gilstrap would probably be ——

Mr. GILSTRAP. Senator, we certainly would do that. I may, if I could ask you for your help on another side too. We have ——

Senator PROXMIRE. But you will do that for the record?

Mr. GILSTRAP. Yes, sir, we will.

[APTA survey available from subcommittee files.]

Mr. GILSTRAP. I would like to say to you, our experience with UMTA on such matters is that there is a little bit of blackmailing that goes on, once that information——

Senator PROXMIRE. A little bit of what?

Mr. GILSTRAP. Blackmailing that goes on, once that information is in the hands of UMTA. We know that our members are called and threatened that if they continue to talk about the impact of these budget cuts on their systems, their grants will be slowed down and in some cases not approved.

Senator PROXMIRE. Well, I hope you will let this committee and the House committee know about it. That's terrible.

Mr. GILSTRAP. It is terrible, yes, sir.

Senator PROXMIRE. They shouldn't be able to do that.

Mr. GILSTRAP. But that happens, and it's very, very difficult, as you know, to have people come forth with that kind of information, because, obviously, the consequences of it will be very serious in their community. But we will provide you that information.

Now if I may ask for your help. We have asked since November for the backup information which was referred to in summary by the chairman on carryover funds, funds not being spent, money that is there and apparently not needed, because it has not been expended. We have not been able to get that information from the Urban Mass Transit Administration. We have asked for it, because we want to help, we want to advise our members where they have

funds that are available and not being spent. They refuse to give that information to us.

Could we respectfully request that your committee seek that information from UMTA in detail by region, by urbanized area, so that our systems will know where they stand, and we will know and be able to help.

Senator HECHT. Would you please send me a letter on that? We'll get it out to your forthcoming.

Mr. GILSTRAP. Yes, sir, and we are submitting a Freedom of Information Act letter on that to UMTA, and we will provide you a copy of that.

Senator HECHT. I have been advised we have never been asked for that.

Mr. GILSTRAP. We'll get that to you.

Senator HECHT. Just ask us.

Mr. GILSTRAP. Yes, sir.

Senator HECHT. Senator Proxmire, will you continue?

Senator Proxmire, anything else?

Senator PROXMIRE. My time is up. Thank you.

Senator HECHT. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

I have a letter, Mr. Simonetta, that you sent me on February 22, which, in a sense, incorporates some of the thoughts you have expressed here in your testimony today. But I'm going to ask that your letter be made a part of the record.

Senator HECHT. Without objection.

[Information can be found on p. 1101]

Senator RIEGLE. Let me ask you and the others at the table to be as illuminating as you can be about the consequences if these cuts that are now before the Senate go through. Where will we be a year from now—what are we going to find happening in your own respective areas and, what do you foresee on the national picture. I'd like to start with you, Mr. Simonetta, if I might.

POSSIBLY BECOME NONEXISTENT

Mr. SIMONETTA. Thank you, sir. I think, by describing the impacts on Ann Arbor, I would give you probably a best case scenario because I think, from that point, it probably would get worse to the extreme of a transit system going out of existence.

Ann Arbor has been a rich community in terms of its ability to provide tax resources for social programs and economic programs, parks, bikeways and mass transit. And back in 1973, the voters of Ann Arbor voted overwhelmingly——

Senator RIEGLE. Too, I might mention for the benefit of those in the room who might not know the important influence of the University of Michigan, which has been a great help. There have been other unique economic strengths in the community. Ann Arbor has been better off and less impacted by some of the adverse developments because of the tremendous strength and power of the University itself.

But, please go ahead.

Mr. SIMONETTA. That's correct. And during some of the high unemployment time that we faced a year or two ago, when Michigan

was looking at 20 and 21 percent unemployment figures, Ann Arbor had a 6-percent unemployment factor. So we've been buffered from some of those influences.

But, in 1973, the voters of Ann Arbor overwhelmingly supported a tax referendum that provides a substantial amount of dedicated tax revenue to maintaining operating public transit. That was prior to any Federal operating assistance being initiated.

When Federal operating assistance came on board there was a natural partnership that existed, and the State of Michigan has also been very progressive in its share of providing both operating and capital support.

What has happened over the last 11 or 12 years since that all took place has been the development of what I consider to be a very fine system that by all estimates locally, through surveys, public opinion polls, meets with something like 95–97 percent of the community's satisfaction.

Senator RIEGLE. What will happen is that the positive trends will begin to reverse. And that wholesome community that we have developed with a balanced transportation system is going to be thrown out of kilter. Our operating costs are going to be unmet. We're going to have to raise fares. That's going to cause reductions in ridership.

Mr. SIMONETTA. In our case, just as important as raising the fares will be an important slowdown in the capitalization program, where we have taken a faltering capital investment, capital system, and have been with a logical plan of replacing vehicles and building facilities and building downtown transit malls, we will have to slow that process and possibly even terminate some of the elements of it.

So, from an overall standpoint, it is going to break the trend that has occurred, that has been so positive to the community.

Senator RIEGLE. What about the others?

Mr. PREMO. Senator in New Jersey——

Senator RIEGLE. Go on and be as direct as you can.

Mr. PREMO. In New Jersey, we'll have higher fares, at least 20 percent. Our capital program will be thrown into complete disarray. We will have to increase State taxes and we will have seven out of eight—about 85 percent of the businesses in our State—supply public transit and lay people off. They will have to fire people because the business won't be there nationally, which is supported by the 35–45 private taxpaying businesses in our State, which are suppliers to the Nation's public transit system.

Mr. FRANK. I think we're overlooking the most important people in the world, our parents. We've got senior citizens and handicapped people that will absolutely be without any transportation. We, in Syracuse, have a demand responsive system that is a curb to curb service for the handicapped and for the senior citizens, and we get testimonials every day of the week in letters to the editor being thankful because they're able to get out of the homes. That's one of the first areas that will be destroyed.

CUT ROUTE SERVICE

Ms. BESSERMAN. Senator Riegle, we've already discussed it. We would have to cut out some routes. Every time we have cut out a route, we have had people come and tell us they're going to lose their jobs, they can't get to work.

Senator RIEGLE. Why won't private enterprise come in and meet this need? That's what the President always talks about, turn it over to private enterprise.

Ms. BESSERMAN. They lose money. We're subsidizing it because you can't make money on it.

Senator RIEGLE. So your testimony today is really to the effect that one of the responsibilities of a nation—a modern, civilized nation—is to have a public transportation system so people can move around. And that you are not necessarily going to be able to run the whole thing economically through the fare box. You have to make a societal decision as to whether or not you are going to provide a transportation system so that when people need to use it—some every day, some once in a while—that there's a way they can get around and function in a modern society.

It seems to me that's what you're telling us.

Mr. FRANK. Senator Riegle, let me give you two statistics here. In 1946, the Syracuse Transit Co. carried 60 million riders. This is really in response to Senator Proxmire's question also. When we took over in 1972, they were carrying less than 9 million riders, from 60 million to 9 million. There was a total demise of that transit system. They couldn't possibly afford to operate.

We're now carrying almost 14 million riders. So we've increased it and brought it back.

Senator RIEGLE. Thank you.

Senator HECHT. Thank you.

Senator D'Amato has a statement for the record, which I ask to be included.

STATEMENT OF SENATOR D'AMATO

Senator D'AMATO. Mr. Chairman, thank you for this opportunity to submit my statement for the record. As this is your first set of hearings as chairman of the subcommittee, I would like to congratulate you on your new role. All of us will surely benefit from your able leadership. In addition, I look forward to reviewing the testimony of all of today's witnesses, especially as it relates to the proposed mass transit budget for the Department of Transportation for fiscal year 1986.

As we consider the Transportation Department's transit budget request today, I would like to comment on some issues of particular concern to me. The Department has requested $24.7 billion of budget authority for fiscal year 1986, a $3.8 billion reduction—13 percent—from its fiscal year 1986 budget level. The lion's share of that cut, $2.75 billion—72 percent—is derived from crippling reductions in funding for the Urban Mass Transportation Administration. I find this proposal to be both unworkable and outrageous.

Lack of Federal transit funds will make it extremely difficult for the Nation's millions of transit riders to get to work, school, and to carry on their daily lives. Many people, particularly the poor, el-

derly, and handicapped, often have no other transportation alternative. Without a viable network of affordable transportation services, we will rob many individuals of their freedom of movement. The ability to get to work or school and to take care of one's own needs, brings with it self-reliance and personal dignity. These values are lost when we force people to become virtual prisoners in their own homes.

General tax revenue funding of transit, based on statutory formulas, would be terminated by the fiscal year 1986 budget. In fiscal year 1985 $2.5 billion was appropriated for this vital program. Operating assistance, funded during fiscal year 1985 at $875 million, would be abruptly cut off. All transit funding would be derived from the 1 penny of Federal gasoline tax dedicated to transit. The $1.1 billion currently authorized for this program would be distributed on a formula basis. Gas tax funds would no longer be distributed on a discretionary basis, but would be allocated as a formula capital program which could not be spent on new construction.

The proposed sweeping changes in the transit program will affect the ability of virtually all the Nation's public transit systems to offer adequate service. The American Public Transit Association [APTA] has surveyed 152 transit systems which carry 75 percent of the Nation's transit riders, as well as 63 transit-related businesses which employ over 40,000 workers, in order to determine the impact of the budget cuts. APTA found that 30 systems might be forced out of business, 88 percent will have to cut service dramatically, and more than 8 in 10 will be forced to raise fares so high as to discourage ridership. In addition, the budget cuts would wipe out an estimated 203,000 jobs and $8 billion in private business revenues.

I am concerned that this budget is forcing transit to bear the brunt of belt-tightening measures in a manner disproportionate to other programs that have either been frozen or increased. The Federal Government has made a tremendous investment in public transit. Without adequate funds, sorely needed maintenance and rehabilitation work will be further deferred and there will be an even more rapid decline in service and safety.

In 1982, passage of the Surface Transportation Assistance Act [STAA] provided a formula for cuts in operating assistance. Transit agreed to bite the bullet by agreeing to cuts of 20, 10, and 5 percent. In fiscal year 1984, $875 million was available for operating assistance—an overall cut of 16 percent from the 1982 level. Despite the cooperation of transit in absorbing this cut, attempts were made again last year to slash the program by 38 percent to $545.5 million with a total phaseout by 1989. Congress rejected that proposal and funded the program at $875 million for fiscal year 1985.

APTA's survey reveals that transit fares would have to rise substantially in 82 percent of the transit systems. Nearly one-quarter, mostly small systems, predicted increases of 90 percent or more. Half predicted increases of 50 percent or more. These increases would occur on top of a national average base fare of 60 cents. Although Federal operating assistance comprises a relatively small share of the New York City Metropolitan Transportation Authority's total budget, it is essential to many small transit systems which may be forced to shut down without it.

Capital assistance is so severely limited under the fiscal year 1986 budget that APTA's survey revealed that over 70 percent of the national transit system would be forced to forego the purchase of new buses. This is made even more significant by the fact that over 30 percent of the Nation's bus fleet is past its useful economic life of 12 years. The New York MTA would receive a devasting cut of about $285 million in capital assistance, in addition to the loss of $108 million of operating funds. Such a reduction will mean the further deferral of vital repair and rehabilitation work on the 81-year-old system. This work is necessary not only to improve service, but for safety.

I am shocked at the statement in the budget that "funding of local transportation is not an appropriate role for the Federal Government since benefits accrue locally." Passage of the STAA, with its creation of the Mass Transit Account in the Highway Trust Fund, was a clear reaffirmation of Congress' commitment to a Federal role in the Nation's transit program. Furthermore, there are many federally assisted projects of direct benefit only to one part of the country or to one particular city or area. The cornerstone of our Federal system of Government is that we address and promote the varying needs and strengths of the different States for the greater good of the Nation. We must not become insensitive to the needs of sister States because eventually we will harm the union itself.

Finally I am concerned that this budget would not provide any new funds for UMTA's Research, Training, and Human Resources Program. Rather, $24.6 million in unobligated balances from the fiscal year 1984 appropriation would be deferred to fund the program in fiscal year 1986. During fiscal year 1985, $51 million is available for use in this program which includes vital funding for safety grants used to fight transit crime. $15 million was earmarked for transit safety and security in last year's appropriations bill. At last year's UMTA budget hearing, I asked UMTA Administrator Ralph Stanley if he would place a greater emphasis on safety and security and he agreed to do so. How will this be possible without any new funds? During the State of the Union Address, President Reagan said:

> Of all the changes in the past 20 years, none has more threatened our sense of national well-being than the explosion of violent crime. One does not have to have been attacked to be a victim. The woman who must run to her car after shopping at night is a victim. The couple draping their door with locks and chains are victims, as is the tired, decent cleaning woman who can't ride a subway home without being afraid.

It is my belief that the Federal commitment to transit will rise above this budget's proposed 70-percent reduction in the program. The administration has recognized the problem of crime on our subway systems, it must now be responsive to its duty to help preserve the Federal investment made in those systems. In addition, Congress must act to ensure that the other parts of the transit program remain intact. It is by creating safer, more reliable and efficient transit systems that we are able to increase ridership and to provide needed revenues.

The Budget Committee has recently voted to slash mass transit funding by 25 percent. Although this is better than the devastating

70-percent cut envisioned by the administration's budget proposal, it is still far too high and will damage the integrity of the program. I have introduced a bill, S. 352, that would permit an additional $900 million to be spent on transit grants over a 3-year period. These funds are now available from revenues accruing from the 1 penny of gas tax dedicated to mass transit. Public mass transit is not receiving the full benefit of that tax because of artificially low authorization ceilings in the program. Thus, I think it is unfair to suggest that transit take a 25-percent cut. What really needs to be done to fulfill our promise to transit is to raise the authorization ceiling on the program to match the actual revenues collected. If, in the effort to reduce the deficit, we must control spending on transit, as well as on other domestic programs, then I believe the best approach would be simply to freeze transit funding at current levels.

Again, I thank you for affording me this opportunity to offer my remarks, and I thank our witnesses for agreeing to share their views with us today.

Senator HECHT. Senator Sasser.

Senator SASSER. Thank you, Mr. Chairman. I've got a statement that I'd like to have included in the record, an opening statement.

Senator HECHT. Without objection.

[The prepared statement follows:]

STATEMENT OF SENATOR SASSER

Senator SASSER. The administration's proposed fiscal year 1986 budget would reduce transit funding by 70 percent. Critical Federal programs, which provide essential service to millions of transit dependent Americans would be eliminated. The most important proposed change is the elimination of Federal operating assistance. The elimination of operating assistance would sound the death knell to effective public transportation in this country.

I recently worked with my colleagues on the Budget Committee to hold the line on the Mass Transit numbers. In subsequent action, however, the committee voted to support the chairman's mark which provided for a 25-percent cut in mass transit funding. I did not support this proposed change in mass transit funding. I support an across-the-board freeze. Public mass transit is an integral part of this Nation's continued economic well-being. I believe that the 20-year Federal, State, and local transit partnership should be maintained.

I had the opportunity recently to get a broad prospective of the human impact of the proposed cut in transit funding.

In Memphis, TN, I conducted hearings on the mass transit budget. The general manager of the Memphis Area Transit Authority painted a dismal picture of future transit operations in Memphis if transit funding is cut. Memphis transit operations now serve over 16 million riders annually. Fares in Memphis are among the highest in the country at 85 cents. Without continued Federal assistance, MATA will face increased fares, reduced ridership, and shortened routes and service hours. Many a Memphian may be hard pressed to utilize transit service on the weekends.

The forecast for rural transit systems is equally as gloomy under the proposed cuts for mass transit. I joined several of my colleagues in sponsoring a rural transit briefing. The purpose of his meeting was to allow the small operators, frequently overlooked in the transit picture, to tell their side of the budget numbers. The administration's proposed budget would eliminate the section 18 funding which is vital to rural systems nationwide. Without the Federal dollars, few, if any, rural systems, anywhere, will be able to survive.

The losers in the proposed transit reductions, whether urban or rural, will be those millions of transit-dependent riders who don't have alternate means of mobility. The poor, the elderly, unemployed, and workers alike, along with the handicapped will be without viable means of transportation.

I had the opportunity to participate in the recent American Public Transit Association's legislative conference. Over 500 transit operators from every corner of America were here to plead a common cause—the continuation of the Federal, State, and local transit partnership.

As I told the participants at the conference, I believe that we in Congress have a responsibility to look at the budget situation in a fair and equitable manner. As part of our responsibility, I think we will ill serve this Nation's overall growth by making short-sided cuts to essential programs. Effective public transportation is important to Tennessee and the Nation. I will not support its emasculation.

Having made these preliminary comments, I would take this opportunity to welcome the members of the mass transit panel to this subcommittee. We look forward to hearing your remarks today.

JAPANESE SUBSIDIZE TRANSPORTATION

Let me begin by asking this question. I had the occasion last year to meet with some members of the Japanese Diet, which, as you know, is the legislativee body of that country. And they were telling me that one of the largest outlays of the Japanese Government is a subsidy for public transportation.

And these magnificent bullet trains there that run at 150 miles an hour didn't just happen and they aren't produced or supported by private enterprise. They are a Government enterprise because the Japanese Government has made the conscious decision that it's in the national interest to be able to move their population in an expeditious manner and to get them from one point to another for jobs and so on.

Can this panel recite to me one major country in the world that does not subsidize its public transportation system?

Mr. PREMO. Senator, we can't because there aren't any.

Senator SASSER. Well, that's precisely what I thought. Now I had the occasion a few weeks ago to hold hearings down in my State, in Memphis, TN, to ascertain just out of curiosity, and also the budget hearings that were coming up, what would be the impact on that city's transit system if the administration's proposed cuts went through.

And I found to my horror that it would mean the ultimate termination of that transportation system that transports 16 million people a year in the city of Memphis, TN.

And I also learned—I thought that the people on that transit system were primarily senior citizens, as Mr. Frank has discussed here today, or that they were people from the bottom socioeconomic bracket. Well, that was partially true. But the lion's share of that transportation was for getting people to and from jobs, in and out of the downtown area for purposes of shopping, or commerce, or business.

I came away with the conclusion that if that transportation system lost its subsidy, that people couldn't go to work, customers couldn't get to the downtown area. The downtown area's decay, which has been arrested at great public cost and private cost in this one city in recent years, would accelerate and go out of control. Indeed, you would have an economic collapse in the downtown area of that city if it lost its transit system, which it would do undoubtedly if the administration's budget cuts went through.

So the question was raised here a moment ago: Why should the people in one area pay for the transit system for people in another area? The same reason that people in one area pay for water and sewer systems for people in other areas of the country. And for the same reason that people in one area where they've got good highways through the Highway Trust Fund pay for highways in less populated areas.

I'm sure the chairman would agree that the State of Nevada would be very hard pressed with their very sparse population if they had to build their highways by themselves and I'm frank to confess that we in the State of Tennessee could never have built the Tennessee Valley Authority had it not been for the largess of other citizens from the richer areas of this country, principally Senator Robert LaFollete of Wisconsin, who, many, many years ago had a lot to do with the concept of a Tennessee Valley Authority.

Ladies and gentlemen, let me ask you what would happen, in your assessment, if we had the 25-percent cut in transit funding as opposed to the freeze that you're proposing. The administration, I think, wants to cut you two-thirds. The Senate Budget Committee said, Well, we'll just cut you 25 percent. And you want a freeze which, in essence, does amount to a cut.

What happens if the 25 percent cut in transit funding becomes an actuality? What's going to happen to the transit system?

Mr. FRANK. Mr. Premo, pick this up afterward. But, my graphic description is that what you're doing is you're taking the tentacles from the body.

The blood won't flow and the body has got to collapse. And this is what actually happens when reductions are taken over a period of time.

Mr. PREMO. I think the impact is going to be very severe on small and rural systems in our country. In the New Jersey's of this country, obviously, public transit must continue and we'll raise fares and we'll cut some service, and we'll raise taxes. But the dependence of it exists. The partnership that exists in smaller and rural areas is such that many of those systems will go out of business.

Senator SASSER. Thank you.

Ms. BESSERMAN. I'd like to make another point about that. Riding a bus is not as nice or as convenient as using your own car. You only do it because you have to, basically. We have spent years building up a system that was nice enough and convenient enough so that people wanted to use it. And we've been building our ridership.

So the answer to what would happen is, we would lose the progress and people would stop. It's an education process. And we don't want that to have a turnaround.

Senator HECHT. Thank you very much.

Anything else, Senator?

Senator SASSER. No, thank you, Mr. Chairman. Thank you.

Senator HECHT. Thank you all for coming and the meeting is adjourned.

[Whereupon, at 4:20 p.m., the meeting was concluded.]

HOUSING, COMMUNITY DEVELOPMENT, AND MASS TRANSPORTATION AUTHORIZATIONS—1986

MONDAY, APRIL 15, 1985

U.S. Senate,
Committee on Banking, Housing, and Urban Affairs,
Subcommittee on Housing, and Urban Affairs,
Washington, DC.

The subcommittee met at 1:30 p.m., in room SD-538, Dirksen Senate Office Building, Senator Chic Hecht (chairman of the subcommittee) presiding.

Present: Senators Hecht, Heinz, Mattingly, Gramm, Proxmire, Dodd, and Sasser.

OPENING STATEMENT OF SENATOR HECHT

Senator Hecht. The Subcommittee on Housing and Urban Affairs will now begin the hearing. Today's hearing is the third and final hearing of this subcommittee on the reauthorization of the programs under the Department of Housing and Urban Development and the Farmers Home Administration as well as on the budget recommendations of the administration for Public and Rural Housing, Community Development, Mass Transit, and Flood Insurance Programs.

In our previous two hearings we heard testimony from a broad range of witnesses representing State and local governments, the private sector, and Government-sponsored agents of the secondary mortgage markets.

Representing the administration, we have with us for today's hearing, Samuel Pierce, Secretary of the Department of Housing and Urban Development and David Stockman, Director of the Office of Management and Budget.

Later today we also have a panel which will discuss the budget proposals for the rural housing programs.

I would like to take this opportunity to welcome you all here today. As I have stated at the opening of the past two hearings of this subcommittee, this Nation is currently facing the most critical economic challenge in its history with projected budget deficits upward of $200 billion threatening to not only undermine the ongoing recovery but, in fact, the very foundation of our economic future. We simply cannot afford to carry on as we have in the past.

This subcommittee and every other authorizing committee in the Senate will have to make the difficult but necessary decisions toward meeting our budget targets or suffer the consequences down

the road when the task will be much more difficult to achieve and the hardships much greater to endure.

In the coming weeks before our markup, it will be vitally important that we, on this subcommittee, analyze these programs under our jurisdiction and find ways to implement changes that will make them more efficient, effective, and less costly to provide.

I firmly believe that we can continue to provide the necessary assistance to those who are most vulnerable in our society while, at the same time, doing our part in reducing the deficit.

Our first witness today will be Samuel Pierce of the Department of Housing and Urban Development.

Secretary Pierce, we have not had the opportunity to discuss these issues before this meeting and I am certainly looking forward to your testimony.

But before Mr. Secretary, Senator Mattingly, do you have an opening statement?

Senator MATTINGLY. No, Mr. Chairman.

Senator HECHT. Mr. Secretary, please proceed.

STATEMENT OF SAMUEL PIERCE, SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary PIERCE. Thank you very kindly. It's a pleasure to appear before you and to testify on the fiscal year 1986 budget and legislative proposals for the Department of Housing and Urban Development.

It's no secret that our budget proposal is part of a continuing negotiation between the administration and the Congress. We will work diligently with you to arrive at a final budget which best serves the entire American community.

HOUSING ASSISTANCE UP DRAMATICALLY

When I became Secretary of HUD, I took to heart President Reagan's charge to reduce the size and cost of Government while continuing to help the most needy. We met this goal and helped bring about the economic recovery which has meant more jobs and new hope for the American people. I'm proud that we're helping to house more needy people than have ever been housed before.

This administration is directing our assistance to people, not bricks and mortar. We're doing this while reducing the Nation's assisted housing debt.

The chart to my left dramatically portrays this fact. In 1981, the total assisted housing debt was being forecast at $250 billion. By 1982, clearly we had to redirect the Nation's housing policy to save us from an assisted housing debt of catastrophic proportions while continuing to help the needy.

As a first step, we switched emphasis from new construction programs to those which utilize existing housing stock. As part of that effort, we developed the Voucher Program which provides housing assistance to eligible families at about one-third the cost of new construction. With these actions and others, we've begun to reduce the assisted housing debt as the chart indicates. At the same time, we're assisting more families than ever.

In fiscal year 1981, HUD was assisting 3.2 million families with housing. By 1986, that number will have risen to 4.2 million, an increase of approximately 1 million families since I arrived at HUD.

I am proud of that increase and I'm proud of the reduction we've achieved and continue to achieve in the assisted housing debt. I intend to maintain and improve upon our progress on both these fronts, but present conditions demand that we do even more.

Today, as President Reagan said in his second inaugural address, we have come to a turning point, a moment for hard decisions. In making those decisions, we benefit by the groundwork laid over the past 4 years. When I recommended that we terminate the section 8 New Construction Program, the Congress agreed. It was an exhorbitantly expensive program which took 3 to 4 years before actually housing anyone.

Our proposals of the early 1980's sought new means to address the low-income housing needs of this country, both thoughtfully and sensibly. With vouchers, we have an assisted housing program that utilizes existing housing stock instead of focusing on new construction. We'll offer freedom of choice and a shopper's incentive for a family instead of forcing the family to live in a specific housing project and we'll shelter that family today, not 3 to 4 years from now, which was common under the section 8 New Construction Program.

The American people have a commitment to provide decent, safe, and affordable housing for those who are needy. With these changes and new programs, we can honor that commitment quicker and at a lower cost in the future.

Mr. Chairman, as you know, the administration's budget calls for a temporary pause in funding new assisted housing units to help attack Federal deficits. It includes a moratorium on incremental units, knowing that our pipeline will continue to add significantly to those families we now assist—207,000 new families will be assisted during 1986 and 1987 alone. It also recognizes that, when funding resumes, our programs would add even more families who'd be housed more quickly because of vouchers and rental rehabilitation.

Now, of course, the budget is under negotiation. Whatever the outcome of that negotiation, it is time to make vouchers a permanent program. Vouchers are the cornerstone of the administration's housing policy.

Now is the time to settle on a plan for the future instead of drifting back to inefficient programs of the past. With continued pressure on already limited budget dollars, we must be sure we're getting the most for our money. The Voucher Program provides such assurance by offering the needy some choice in seeking housing suitable to their needs and by delivering housing assistance at less cost to the taxpayer. Vouchers are a commonsense solution to a difficult problem.

By comparison, the Rental Housing Development Grant Program, or HoDAG, has proved to be an expensive way to subsidize lower income housing; in effect, costing $76,000 for each lower income unit. Nor is HoDAG well-targeted to need. Over 40 percent of the projects funded thus far are located in cities with a rental vacancy rate above the national median. HoDAG was created by the Congress and accepted by the administration with the under-

standing that it would be a one-time, 2-year program. Consistent with that understanding, we propose terminating that program.

We will continue with the Rental Rehabilitation Program, an efficient pay-as-you-go development program, in fiscal year 1988.

In addition to these budget initiatives, the administration proposes terminating housing assistance programs under the Farmers Home Administration. It makes sense to have all housing assistance programs administered by one department.

We, at HUD, are prepared to provide housing assistance to rural populations and I'm confident we can do a good job of serving their needs.

In public housing, our proposals rest on a foundation of long-term planning, management reforms, and use of a substantial modernization pipeline. These proposals, too, are part of the negotiation process. Of course, whatever the outcome of that negotiation, we'll continue to help local public housing authorities [PHA's] improve their management efficiency and better maintain existing housing. In fact, we want to prepare for a transition to a more effective modernization program.

FORMULA FUNDING

I will soon submit a proposal for a comprehensive grant system which would become effective in fiscal year 1987. The objectives of the proposal will be to deregulate the public housing program in favor of a greater degree of local choice and to provide a greater degree of predictability of funding for capital improvements through use of formula funding.

I look forward to working with the authorization committees in both Houses toward development of such a system.

In addition, our 1986 budget and legislative package proposes public housing financing reform to reduce budget outlays in future years. The Tax Reform Act of 1984 has prevented us from rolling over in the private market, approximately $14 billion in guaranteed tax-exempt, short-term notes. We are buying up the entire inventory of these notes, increasing outlays and budget authority sharply in 1985.

We propose to turn this problem into an opportunity by seeking legislation to cancel both the Treasury debt and the debt of the public housing authorities by retiring this debt and financing new public housing commitments with up-front grants. We would save billions of dollars in the future.

With steps like these, we hope to avoid mortgaging our children's future. The people who live in public housing deserve a better future also. The quality of life in public housing is important to us. We're committed to improving and preserving our existing housing inventory which can contribute to a better quality of life for residents of public housing.

We're also being innovative on behalf of those who live there. Among our initiatives to improve the quality of life in public housing, is a demonstration which encourages home ownership by the tenants themselves.

CDBG PART IN DEFICIT REDUCTION

Now, I'll discuss our community development proposals.

Community development block grants [CDBG] must play a part in our deficit reduction effort for 1986. We propose a CDBG reduction of 10 percent to a funding level of $3.125 billion. This is solely a belt-tightening measure for fiscal year 1986. Beginning in fiscal 1987, we will increase funding by roughly 4 percent per year through 1990.

As you know, the administration proposes to end Farmers Home Administration assistance for public facility construction projects. To compensate for the reduction in this assistance to communities served by the Farmers Home Administration, we would change the split of CDBG funds between the entitlement and nonentitlement categories from a 70–30-percent division to a 60–40-percent split. This allocation change would allow more of the community development activities currently carried out by the Farmers Home Administration to be undertaken by small communities through the State CDBG Program.

On the other hand, if the current negotiations between the administration and Congress result in a continuation of Farmers Home Administration assistance for public facility construction projects, then we will propose maintaining the 70–30-percent split of the CDBG funds between the entitlement and nonentitlement communities.

Mr. Chairman, we propose terminating one major development program, urban development action grants, or UDAG. As you know, I've been one of the program's strongest supporters. I have fought for its continuation every year since 1981. UDAG has been a good program. Over the last 4 years, UDAG made possible redevelopment projects which could not have been achieved without it.

However, we have come to the point where we must reduce our budget to bring down current and outyear deficits. In order to do this, the administration proposes the elimination of Federal financing and grant programs for local economic developments, programs such as EDA, the Appalachian Regional Commission, and UDAG.

By terminating these programs, savings to the Treasury will be nearly $2 billion in just 3 years. It is worth noting that over 80 percent of the communities which have won UDAG awards will receive some form of debt service repayment in 1986.

Looked at another way, this year, fiscal 1985, debt service repayment to communities will amount to approximately $170 million, roughly 38 percent of current annual UDAG appropriations. This repayment increases yearly, reaching about 50 percent of current local UDAG appropriations in 1988.

DISCRIMINATORY PRACTICES

These repayments allow communities to carry on new economic development activities. Our budget proposes expanded authority and outlays in one key area, fair housing. After 17 years of experience under the Fair Housing Act, it is all too apparent that housing discrimination continues to plague our Nation because discriminatory practices have become sophisticated and subtle. They have become more difficult to detect.

The President and I are determined to confront these insidious practices. We are proposing a Fair Housing Initiatives Program [FHIP] to be funded at $10 million for fiscal year 1986. This will be part of an expanded national effort to focus on the problem of discrimination in housing by utilizing public and private resources and energies at the grassroots level. We want to strike at the capacity of State and local agencies, both public and private, to use judicial and administrative processes to more effectively fight discrimination.

When FHIP is enacted, our funding criteria will be carefully drawn to ensure that taxpayers' money supports only those organizations which function responsibly to ferret out unlawful discriminatory practices.

In addition, our existing Fair Housing Assistance Program will be continued at a funding level of $5 million. This brings the total budget authority for Fair Housing Programs to $15 million, up $6.7 million in 1985.

As you know, the President and I have long recognized that we need to strengthen the enforcement provisions of our fair housing law. The issue of fair housing transcends partisan concerns. Stronger fair housing enforcement will be a major legislative effort for us this year.

Another priority is enactment of Federal enterprise zone legislation. Enterprise zones are targeted to areas of the country that are severely distressed, surrounded by extreme poverty and unemployment. These areas are not benefiting from the economic recovery, nor are they likely to in the foreseeable future.

Enterprise zones can help alleviate the severe problems in these areas; with Federal tax and regulatory relief added to State and local incentives, private sector capital will be attracted to our distressed communities.

Enterprise zones can help us to replace poverty and dispair with jobs and hope. I know this committee and the rest of the Senate, indeed, the entire Congress, face a critical challenge in balancing the needs of the American people with the serious threat which budget deficits pose for the economic health of our country.

My staff and I will work with you in achieving that balance in the most equitable way possible. I am convinced we can bring the Federal budget under control. And doing so will help ensure that the fruits of our prosperity are shared as widely as possible, especially with those with the greatest needs.

I want to thank you for inviting me to present our budget and legislative proposals before this committee and I shall be glad to respond to any questions you or the members of the committee may have.

[The complete prepared statement follows:]

TESTIMONY OF
SECRETARY SAMUEL R. PIERCE, JR.
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. Chairman and Members of the Committee:

It is a pleasure to appear before you to testify on the fiscal 1986 budget and legislative proposals for the Department of Housing and Urban Development. It's no secret that our budget proposal is part of continuing negotiation between the Administration and the Congress. We will work diligently with you to arrive at a final budget which best serves the entire American community.

When I became Secretary of HUD, I took to heart President Reagan's charge to reduce the size and cost of government while continuing to help the most needy. We met this goal and helped bring about the economic recovery which has meant more jobs and new hope for the American people.

I'm proud that we're helping to house more needy people than ever have been housed before. This Administration is directing our assistance to <u>people</u> -- not bricks and mortar. We're doing this while <u>reducing</u> the Nation's assisted housing debt. The chart dramatically portrays this fact.

In 1981, the total assisted housing debt was being forecast at $250 billion by 1982. Clearly, we had to redirect the Nation's housing policy to save us from an assisted housing debt of catastrophic proportions, while continuing to help the needy.

As a first step, we switched emphasis from new construction programs to those which utilize existing housing stock. As part of that effort, we developed the voucher program which provides housing assistance to eligible families at about one-third the cost of new construction.

With these actions and others, we've begun to reduce the assisted housing debt, as the chart indicates. At the same time, we're assisting more families than ever. In Fiscal 1981, HUD was assisting 3.2 million families with housing; in 1986 that number will have risen to 4.2 million...an increase of approximately a million families since I arrived at HUD.

I'm proud of that increase. And, I'm proud of the reduction we've achieved...and <u>continue</u> to achieve...in the assisted housing debt. I intend to maintain and improve upon our progress on both these fronts. But present conditions demand that we do even more.

Today, as President Reagan said in his second Inaugural Address: "We have come to a turning point, a moment for hard decisions." In making those decisions, we benefit by the groundwork laid over the last four years.

When I recommended that we terminate the Section 8 New Construction program, the Congress agreed. It was an exorbitantly expensive program which took three-to-four years before actually housing anyone.

OUR PROPOSALS OF THE EARLY 80'S SOUGHT NEW MEANS TO ADDRESS THE LOW-INCOME HOUSING NEEDS OF THIS COUNTRY BOTH THOUGHTFULLY AND SENSIBLY. WITH VOUCHERS, WE HAVE AN ASSISTED HOUSING PROGRAM THAT UTILIZES EXISTING HOUSING STOCK INSTEAD OF FOCUSING ON NEW CONSTRUCTION. WE'LL OFFER FREEDOM OF CHOICE AND A SHOPPER'S INCENTIVE FOR A FAMILY, INSTEAD OF FORCING THE FAMILY TO LIVE IN A SPECIFIC HOUSING PROJECT. AND WE'LL SHELTER THAT FAMILY TODAY, NOT THREE-TO-FOUR YEARS FROM NOW, WHICH WAS COMMON UNDER SECTION 8 NEW CONSTRUCTION.

THE AMERICAN PEOPLE HAVE A COMMITMENT TO PROVIDE DECENT, SAFE AND AFFORDABLE HOUSING FOR THOSE WHO ARE NEEDY. WITH THESE CHANGES AND NEW PROGRAMS, WE CAN HONOR THAT COMMITMENT QUICKER AND AT A LOWER COST IN THE FUTURE.

MR. CHAIRMAN, AS YOU KNOW, THE ADMINISTRATION'S BUDGET CALLS FOR A TEMPORARY PAUSE IN FUNDING NEW ASSISTED HOUSING UNITS TO HELP ATTACK FEDERAL DEFICITS. IT INCLUDES A MORATORIUM ON INCREMENTAL UNITS, KNOWING THAT OUR PIPELINE WILL CONTINUE TO ADD SIGNIFICANTLY TO THOSE FAMILIES WE NOW ASSIST...207,000 NEW FAMILIES DURING 1986 AND 1987 ALONE. IT ALSO RECOGNIZES THAT, WHEN FUNDING RESUMES, OUR PROGRAMS WOULD ADD EVEN MORE FAMILIES...WHO'D BE HOUSED MORE QUICKLY...BECAUSE OF VOUCHERS AND RENTAL REHABILITATION.

Now, of course, the budget is under negotiation.

Whatever the outcome of that negotiation, it is time to make vouchers a permanent program. Vouchers are the cornerstone of the Administration's housing policy.

Now is the time to settle on a plan for the future, instead of drifting back to inefficient programs of the past. With continued pressure on already limited budget dollars, we must be sure we're getting the most for our money. The voucher program provides such assurance. By offering the needy some choice in seeking housing suitable to their needs, and by delivering housing assistance at less cost to the taxpayer, vouchers are a common sense solution to a difficult problem.

By comparison, the Rental Housing Development Grant program (HoDAG) has proved to be an expensive way to subsidize lower income housing, in effect costing $76,000 for each lower income unit.

Nor is HoDAG well targetted to need. Over 40 percent of the projects funded thus far are located in cities with a rental vacancy rate above the national median. HoDAG was created by the Congress and accepted by the Administration with the understanding that it would be a one-time, two-year program. Consistent with that understanding, we propose terminating the program.

We will continue with the Rental Rehabilitation Program...an efficient, pay-as-you-go development program...in Fiscal 1988.

In addition to these budget initiatives, the Administration proposes terminating housing assistance programs under the Farmers Home Administration. It makes sense to have all housing assistance programs administered by one Department. We at HUD are prepared to provide housing assistance to rural populations, and I'm confident we can do a good job serving their needs.

In public housing, our proposals rest on a foundation of long-term planning, management reforms and use of a substantial modernization pipeline.

These proposals, too, are part of the negotiation process. Of course, whatever the outcome of that negotiation, we'll continue to help local PHAs improve their management efficiency and better maintain existing housing. In fact, we want to prepare for a transition to a more effective modernization program.

I soon will submit a proposal for a comprehensive grant system which would become effective in Fiscal 1987. The objectives of the proposal will be to deregulate the public housing program in favor of a greater degree of local choice and to provide a greater degree

OF PREDICTABILITY OF FUNDING FOR CAPITAL IMPROVEMENTS THROUGH USE OF FORMULA FUNDING. I LOOK FORWARD TO WORKING WITH THE AUTHORIZATION COMMITTEES IN BOTH HOUSES TOWARD DEVELOPMENT OF SUCH A SYSTEM.

IN ADDITION, OUR 1986 BUDGET AND LEGISLATIVE PACKAGE PROPOSES PUBLIC HOUSING FINANCING REFORM TO REDUCE BUDGET OUTLAYS IN FUTURE YEARS. THE TAX REFORM ACT OF 1984 HAS PREVENTED US FROM ROLLING OVER IN THE PRIVATE MARKET APPROXIMATELY $14 BILLION IN GUARANTEED, TAX-EXEMPT SHORT-TERM NOTES. WE ARE BUYING UP THE ENTIRE INVENTORY OF THESE NOTES, INCREASING OUTLAYS AND BUDGET AUTHORITY SHARPLY IN 1985. WE PROPOSE TO TURN THIS PROBLEM INTO AN OPPORTUNITY BY SEEKING LEGISLATION TO CANCEL BOTH THE TREASURY DEBT AND THE DEBT OF THE PUBLIC HOUSING AUTHORITIES. BY RETIRING THIS DEBT AND FINANCING NEW PUBLIC HOUSING COCOMMITMENTS WITH UP-FRONT GRANTS, WE WOULD SAVE BILLIONS OF DOLLARS IN FUTURE YEARS.

WITH STEPS LIKE THESE, WE HOPE TO AVOID MORTGAGING OUR CHILDREN'S FUTURE.

THE PEOPLE WHO LIVE IN PUBLIC HOUSING DESERVE A BETTER FUTURE, AS WELL. THE QUALITY OF LIFE IN PUBLIC HOUSING IS IMPORTANT TO US. WE'RE COMMITTED TO IMPROVING AND PRESERVING OUR EXISTING HOUSING INVENTORY, WHICH CAN CONTRIBUTE TO A BETTER QUALITY OF LIFE FOR RESIDENTS OF PUBLIC HOUSING.

We're also being innovative on behalf of those who live there. Among our initiatives to improve the quality of life in public housing is a demonstration which encourages home ownership by the tenants themselves.

Now, I'll discuss our community development proposals. Community Development Block Grants must play a part in our deficit reduction effort for 1986. We propose a CDBG reduction of 10 percent, to a funding level of $3.125 billion. This is solely a belt-tightening measure for fiscal 1986. Beginning in fiscal 1987, we will increase funding by roughly 4 percent per year through 1990.

As you know, the Administration proposes to end Farmers Home Administration assistance for public facility construction projects. To compensate for the reduction in this assistance to communities served by Farmers Home, we would change the split of CDBG funds between the entitlement and non-entitlement categories from a 70 and 30 percent division to a 60 and 40 percent split. This allocation change would allow more of the community development activities currently carried out by Farmers Home to be undertaken by small communities through the State CDBG program. On the other hand, if the current negotiations between the

Administration and the Congress result in a continuation of Farmers Home assistance for public facilities construction projects, then we would propose maintaining the 70/30 split of Community Development Block Grant funds between entitlement and non-entitlement programs.

Mr. Chairman, we propose terminating one major development program -- Urban Development Action Grants, or UDAG. As you know, I've been one of the program's strongest supporters. I fought for its continuation every year since 1981.

UDAG has been a good program. Over the last four years UDAG made possible redevelopment projects which could not have been achieved without it. However, we've come to the point where we must reduce our budget to bring down current <u>and</u> out-year deficits. In order to do this, the Administration proposes the elimination of Federal financing and grant programs for local economic development... programs such as EDA, the Appalachian Regional Commission and UDAG. By terminating these programs, savings to the Treasury will be nearly $2 billion in just three years.

It's worth noting that over 80 percent of the communities which have won UDAG awards will receive some form of debt service repayment in 1986. Looked at another way, this year -- Fiscal 1985 -- debt service repayment to communities will amount to

APPROXIMATELY $170 MILLION...ROUGHLY 38 PERCENT OF CURRENT ANNUAL UDAG APPROPRIATIONS. THIS REPAYMENT INCREASES YEARLY, IN 1988 REACHING ABOUT 50 PERCENT OF CURRENT ANNUAL UDAG APPROPRIATIONS. THESE REPAYMENTS ALLOW COMMUNITIES TO CARRY ON NEW ECONOMIC DEVELOPMENT ACTIVITIES.

OUR BUDGET PROPOSES EXPANDED AUTHORITY AND OUTLAYS IN ONE KEY AREA -- FAIR HOUSING. AFTER 17 YEARS OF EXPERIENCE UNDER THE FAIR HOUSING ACT, IT IS ALL TOO APPARENT THAT HOUSING DISCRIMINATION CONTINUES TO PLAGUE OUR NATION. BECAUSE DISCRIMINATORY PRACTICES HAVE BECOME SOPHISTICATED AND SUBTLE, THEY HAVE BECOME MORE DIFFICULT TO DETECT.

THE PRESIDENT AND I ARE DETERMINED TO CONFRONT THESE INSIDIOUS PRACTICES. WE ARE PROPOSING A FAIR HOUSING INITIATIVES PROGRAM TO BE FUNDED AT $10 MILLION FOR FISCAL 1986. THIS WILL BE PART OF AN EXPANDED NATIONAL EFFORT TO FOCUS ON THE PROBLEM OF DISCRIMINATION IN HOUSING BY UTILIZING BOTH PUBLIC AND PRIVATE RESOURCES AND ENERGIES AT THE GRASSROOTS LEVEL. WE WANT TO STRENGTHEN THE CAPACITY OF STATE AND LOCAL AGENCIES, BOTH PUBLIC AND PRIVATE, TO USE JUDICIAL AND ADMINISTRATIVE PROCESSES TO MORE EFFECTIVELY FIGHT DISCRIMINATION. WHEN FHIP IS ENACTED, OUR FUNDING CRITERIA WILL BE CAREFULLY DRAWN TO ENSURE THAT TAXPAYERS' MONEY SUPPORTS ONLY THOSE ORGANIZATIONS WHICH FUNCTION RESPONSIBLY TO FERRET OUT UNLAWFUL DISCRIMINATORY PRACTICES.

In addition, our existing Fair Housing Assistance Program will be continued at a funding level of $5 million. This brings the total budget authority for fair housing programs to $15 million, up from $6.7 million in 1985.

As you know, the President and I have long recognized that we need to strengthen the enforcement provisions of our fair housing law. The issue of fair housing transcends partisan concerns. Stronger fair housing enforcement will be a major legislative effort for us this year.

Another priority is enactment of Federal Enterprise Zone legislation. Enterprise Zones are targetted to areas of the country that are severely distressed. Surrounded by extreme poverty and unemployment, these areas are not benefitting from the economic recovery...nor are they likely to in the foreseeable future.

Enterprise Zones can help alleviate the severe problems in these areas. With Federal tax and regulatory relief added to State and local incentives, private sector capital will be attracted to our distressed communities. Enterprise Zones can help us to replace poverty and despair with jobs and hope.

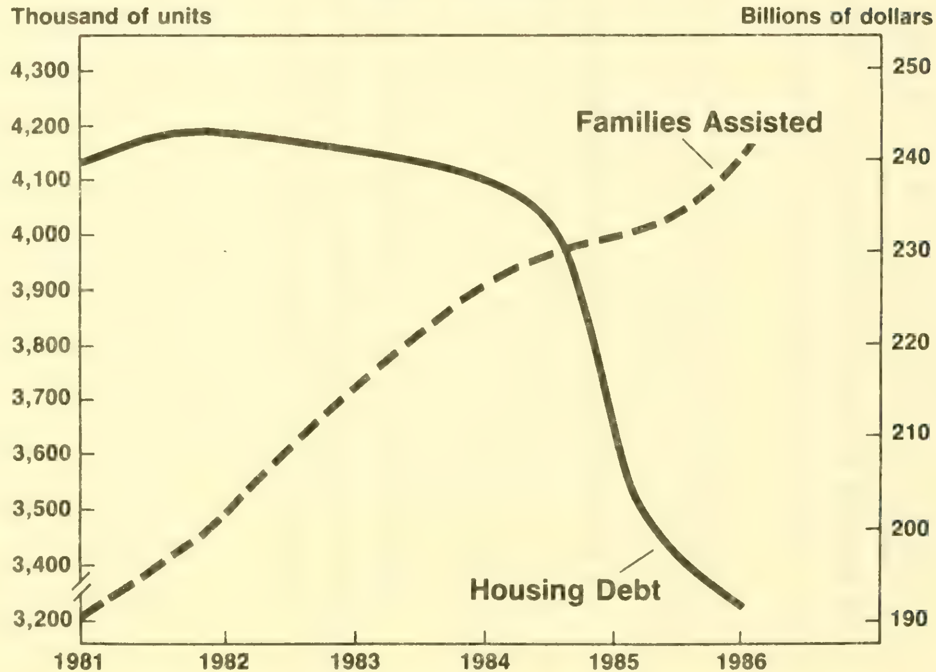
I know this Committee and the rest of the Senate, indeed the entire Congress, face a critical challenge in balancing the needs of the American people with the serious threat which budget deficits pose for the economic health of our country.

My staff and I will work with you in achieving that balance in the most equitable way possible.

I'm convinced we can bring the Federal budget under control. And, doing so will help us insure that the fruits of our prosperity are shared as widely as possible, especially with those with the greatest needs.

Thank you for inviting me to present our budget and legislative proposals to this Committee. I am happy to respond to any questions you and the members of the Committee may have.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
SUBSIDIZED HOUSING PROGRAMS
NUMBER OF FAMILIES ASSISTED AND HOUSING DEBT
1986 BUDGET



Senator HECHT. Thank you, Mr. Pierce.

Before we start, Senator Heinz, did you have an opening statement?

Senator HEINZ. No, Mr. Chairman.

Senator HECHT. Senator Gramm.

[No response.]

Senator HECHT. Mr. Secretary, Senator Mattingly had another hearing and has asked if he can submit some questions for you for the record.

Secretary PIERCE. He certainly can.

Senator HECHT. And the minority staff has questions that will be submitted for the record, too.

[Response to written questions not received in time for publication.]

HIGH OVERHEAD

Mr. Secretary, in 1980, HUD administrative costs were roughly $575 million. For 1985, they are expected to be $585 million. Yet, over this time, we have reduced the size of these programs significantly.

How can you justify this high overhead?

Secretary PIERCE. The high overhead? I didn't quite understand the first part.

Senator HECHT. In 1980, HUD administrative costs were roughly $575 million, and for 1985 they are expected to be $585 million. Yet, over the same time, we have reduced the size of these programs significantly.

How can you justify this high overhead?

Secretary PIERCE. Actually, Senator, I have not gone into the details of it but we have certainly been reducing our overhead as much as we possibly can. All you have to do is look at the number of employees that we have.

When we started off, we had about 16,000; now we have about 12,000. We have reduced general travel. We are trying to reduce everywhere we can. There must be some reason for this added amount of money. I can't, offhand, tell you exactly where that is in our budget.

But I will be glad to have this looked into by our Assistant Secretary for Administration and get an answer to you on that, or at least more fully explain it. Off the top of my head, I cannot explain it except to say that we have been reducing staff and administrative expenses as much as possible. So there may be some reason why this money is there.

Senator HECHT. Thank you. Just submit it for the record.

[The following information was subsequently submitted for the record:]

S&E, HUD FUNDING INCREASE—FISCAL YEARS 1980-85

The Department's administrative expenses have grown marginally in the period 1980-85. The increase has occurred despite a 27-percent reduction in the Department's full-time permanent employment which saved nearly $78 million. The $78 million savings has been offset by:

	[In millions]
Cumulative pay increases of 28.1 percent approved by Congress between October 1980 and January 1985	+$84.1

Other pay and benefit increases mandated by legislation (Medicare, Employees' Compensation Fund, unemployment compensaton, severance pay)	+7.0
All other costs (net increase due primarily to increases by GSA in space rental costs)	+6.3
Total increase	+97.4

Notwithstanding these increases, the Department's budget shows a proposed decrease of $35.5 million into 1986.

Senator HECHT. At our earlier hearings, representatives of local governments and some public housing agencies expressed an interest in assuming a greater role in serving the particular housing needs in their areas.

What are your thoughts on instituting greater local decisionmaking and for allowing public housing agencies to own units free and clear of Federal controls?

Secretary PIERCE. We are very much in favor of having more local decisionmaking. As a matter of fact, I believe I mentioned in my opening remarks that we are going to submit to Congress a plan that will bring about more local control of PHA's and give them more of an opportunity to plan what they spend by making a formula, or devising a formula, that will make it more simple for them to see how much money they will have in the future. So they can plan better than they do now.

Senator HECHT. Mr. Secretary, given the recent manuevering between the White House and the Senate Budget Committee leadership, I am wondering what the administration's budget targets currently are.

Could you tell this committee what those targets are and how you are proposing to spend these funds? Because if you are talking about the overall target, I believe our overall target is trying to reduce our overall budget by the same amount of money. There are some differences as to where the money will be spent. I think that's where the differences are. And what we are really negotiating. And, as you know, that part is being negotiated now. And we hope to work that out in the very near future, because it's not so much what the overall number is, it is as to where the money will be spent as funding is available.

VOUCHER PROGRAM

Many have criticized the Voucher Program because there are not enough existing units available, and tenants will be forced to pay more than 30 percent of their income.

What evidence can you provide the committee that there is enough affordable housing and that vouchers can succeed as a principal housing program for the future?

Secretary PIERCE. We have had a good deal of experience with the section 8 existing housing program, and the Experimental Housing Allowance Program [EHAP] which is the forerunner of the Voucher Program. And that program has worked very well. We have been working on that since 1970—when I say we, I mean the Department of Housing and Urban Development.

The results have been very good. So, consequently, we believe that what we have learned from both programs can be applied to the Voucher Program, and it should be very good for the future.

As a matter of fact, the Voucher Program is even better than section 8. It's an improvement upon section 8. So we think this should work very well.

And I might say, sir, that the reason we went to voucher, is because of a study that was done by the Rand Corp. which shows that there is no shortage of rental housing nationwide. I underscore the word nationwide because they did find there were some shortages in certain communities or localities.

The President's Commission on Housing as well as the Research Division at HUD reviewed that study, and concluded that a voucher system should be adopted. That vouchers should become the backbone of our housing program because there is, on the whole, a sufficient amount of rental housing and what poor people need need is financial assistance to help them pay their rent.

The problem is one of affordability, not availability. That being the case, we went for vouchers and we believe that vouchers will resolve a lot of our problems and also make housing less expensive from the taxpayers' point of view.

Senator HECHT. I am interested in successful examples of public housing residents taking on an active role in managing their own apartments. Additionally, Senator Symms, and others, seek to allow public housing residents the opportunity to purchase their apartments.

What steps can you now take at your agency and what additional legislation would be required to allow resident management of public housing and eventual home ownership for tenants?

Secretary PIERCE. There are several examples of tenants managing their own property. One is right here in Washington, the Kenilworth project. They are managing their own property very well. Going a step further, trying to get tenants to purchase their own homes, we will soon begin a demonstration project to determine the best way for tenants to purchase their own homes.

There may be the need for additional legislation, but I cannot say at this point exactly what that legislation would be because we would like to have the opportunity to work on the demonstration program first.

Senator HECHT. In reviewing these programs, I have noticed that many have been reduced to the point that I question the need for continuing them.

Take, for instance, the 5,000 units under the section 235 program and the roughly 6,000 units assisted under the section 312 Rehab Program. Couldn't we take the roughly $264 million for these programs and put it into rental rehab and vouchers to further meet our objectives of providing more housing assistance?

Secretary PIERCE. I would agree with that wholeheartedly. [Laughter.]

Senator HECHT. I am a little concerned about some of the provisions of current law that increase the cost of providing assistance. Take, for instance, the Elderly and Handicapped Housing Program, which prohibits competitive bidding for projects under $2 million. With all the talk of late about contractors gouging the Federal Government on defense spending, I am surprised that the same level of scrutiny is not applied on these programs.

How much would we save if competitive bidding were required on all section 202 projects?

Secretary PIERCE. I couldn't tell you off the top of my head, sir. I would be willing to have that looked up and try to give you a figure on it. I can't tell you the amount off the top of my head.

Senator HECHT. All right.

[The following information was subsequently submitted for the record:]

Question. How much could be saved if competitive bidding were required on all section 202 projects?

Answer. HUD made a comparative study of 12 projects that used the competitive bidding process rather than the usual method of sole-source contract negotiation to obtain a general contractor. Field offices made cost estimates on these projects, as is done under both kinds of contract. Comparisons of the estimated costs to the amounts bid showed that 759 units were built at an average saving of $3,837 per unit. The average saving per project was $242,662, for a total saving from all 12 projects of $2,911,952. Clearly competitive bidding offers the most efficient use of budget resources for the section 202 program.

DAVIS-BACON PROVISION

Senator HECHT. Another provision of current law that applies to all these programs you administer is Davis-Bacon. How much has Davis-Bacon added to the cost of these programs?

Secretary PIERCE. Well, it does add substantially to certain building programs, there's little doubt of that. It added much more in the days when we had section 8 new construction, but it still adds to the cost of our programs. The exact amount, I don't know. If you want to, I could try to give you an exact estimate on that.

[The following information was subsequently supplied for the record:]

Question. Another provision of current law that applies to all these programs you administer is Davis-Bacon. How much has Davis-Bacon added to the cost of these programs?

Answer. Although a precise figure is not available, in 1982, the report of the President's Commission on Housing stated that "Estimates of the total impact (of the Davis-Bacon Act) on HUD-assisted programs range between 1 and 4 percent of development costs, including some administrative costs. Added delays, additional costs to contractors, and uneven wage applications also result from the act's administrative requirements."

Senator HECHT. Thank you.

Senator Dodd.

Senator DODD. Thank you, Mr. Chairman. My apologies to you and the committee for arriving a few minutes late.

Mr. Secretary, several questions if I may. You have advocated in your testimony for the voucher system, as being, as you say, the cornerstone of the administration's housing policy.

Would you give the committee some indication of how many vouchers the administration has distributed or is committed to at the present?

Secretary PIERCE. It is committed to around 52,000 at the present time. That is not what we are requesting for the future.

Senator DODD. How many people are at present in possession of vouchers?

Secretary PIERCE. They just started being distributed this month because the law that authorized vouchers combined them with a rehabilitation program. So, first buildings had to be rehabilitated

before vouchers could be distributed. We also were given a demonstration program by the Congress. The demonstration program had to be designed and the contractor engaged.

There were a number of things to do. So it took a substantial amount of time. We were not given the vouchers on an ongoing basis like a regular established program.

Senator DODD. It wouldn't be a mischaracterization to say that the Voucher Program has really not been instituted; we are talking about something more in the future than anything that has really been in existence?

Secretary PIERCE. It started this month. They started this month being actually handed out.

Senator DODD. So actually no one really possesses a voucher yet?

Secretary PIERCE. I believe a few people do.

Senator DODD. A few people.

You have indicated here that the voucher system would be far less costly than the present system under the HoDAG Program. You indicated that cost around $76,000 per unit.

How much would the voucher system cost a person, assuming a 20-year commitment under the Voucher Program?

Secretary PIERCE. About $28,350 as compared to $76,000.

Senator DODD. How do you calculate that figure?

Secretary PIERCE. That figure was given to me by my research people. If you want the calculation worked out——

Senator DODD. What is the annual cost?

Secretary PIERCE. The annual cost for a voucher?

Senator DODD. Yes.

Secretary PIERCE. It is about—close to maybe $3,000.

Senator DODD. A little more than $3,000, isn't it, about $3,800?

Secretary PIERCE. It may be a bit more. It is around $3,000.

Senator DODD. By my math, if you multiply that times 20 years you come out just to around $76,000, and you don't end up with a unit.

Secretary PIERCE. It doesn't work that way. But can we have that for you because we have gone through this. I have it for you.

Senator DODD. That might help because the implication here is that this Voucher Program will be far less costly.

Secretary PIERCE. It is less costly, and I will have that put into the record, all worked out mathematically.

Senator DODD. I would appreciate that if you would. My math indicates something else.

Secretary PIERCE. I know. We got that over in the House, too, but the mathematics is wrong. [Laughter.]

[The following information was subsequently submitted for the record:]

COMPARISON OF HODAG AND VOUCHER SUBSIDIES

The funded HoDAG projects require an upfront subsidy of $76,000 to obtain one lower-income unit for 20 years. The $76,000 subsidy estimate for a low-income targeted HoDAG unit is based upon the total $288 million obligated in the first round of funding divided by the number of low-income families assisted (3,769). To allow a comparison with the upfront HoDAG subsidy, a voucher subsidy involving an annual payment over a period of years, must be converted to a present discount value measure. Assuming that a unit reserved and under payment in fiscal year 1985 has a contract rent equal to $4,659 per unit and also that the tenant contribu-

tion would not vary substantially from the $1,759 estimated for all section 8 existing units, an estimated subsidy of $2,900 would result. The present value of a series of annual voucher payments of $2,900 (increased by a 3-percent payment adjustment each year) over 20 years is $28,350, assuming a discount rate of 11.3 percent (Treasury bond rate). The present value of the voucher subsidy of $28,350 is substantially less than the per unit cost of $76,000 for lower income units achieved under the HoDAG program.

Senator DODD. You also indicated that the HoDAG Program would only be in existence, by agreement, for 1½ years.

Whose agreement was that?

Secretary PIERCE. As I understand it, this program was the product of negotiations between the administration and the Congress. People from my Department as well as OMB were working with people on the Hill, and it was understood that we had a 2-year proposal with respect to this program.

Senator DODD. I am curious, just from my own standpoint, not from a congressional standpoint, who agreed with that?

You know, I have a slight passing interest in that program.

Secretary PIERCE. Yes; I think it was agreed to by the chairman of the House Banking Committee. I believe that was my understanding.

Senator DODD. I am curious about that because I knew of no such agreement. In fact, during the negotiations with the administration, I was deeply involved with them, and there was no such agreement at all.

Secretary PIERCE. That is my understanding. I was not at those meetings.

People who are in my office were there, and they were reporting back to me, and that is what I understand.

Senator DODD. They are incorrect. There was no such agreement, I can tell you categorically, having been involved in that.

Secretary PIERCE. If that is the case, I have the wrong information.

Senator DODD. That is correct.

STATES INVOLVEMENT

I wonder if you have done any calculations—I know the Office of Management and Budget is deeply interested in our deficit reduction proposals—I wonder if you have had any projections done of what the costs would be on regressive taxes to the States for maintaining the general level in the housing area.

Have any studies been done?

Secretary PIERCE. I don't believe so, not at this point.

Senator DODD. No effort at all to determine what the local tax increase would have to be in order to sustain present levels of funding to the administration proposal on the budget?

Secretary PIERCE. I don't quite understand that. Do you mean what local governments would have to pay for housing?

Senator DODD. Just to maintain present levels. We are talking about the urban development action grants as well.

Secretary PIERCE. We have not worked that all out. If you would like—and I don't know whether you would put this in the record or not—but we could have it sent to you—we could take this on as a

problem and have our thinking sent to you in the near future and have our Office of PD&R work on this.

Senator DODD. That would be helpful.

I will tell you, in Connecticut such a study was done. The estimates were that if you were to maintain the present level—and I do not suggest that this may ultimately be the case—but it would result in a property tax increase of between 5 and 10 percent.

Secretary PIERCE. Now, this is to maintain the level of UDAG and what other program?

Senator DODD. The Community Development Block Grant Program.

Secretary PIERCE. CDBG, UDAG, and what else?

Senator DODD. And HoDAG.

Secretary PIERCE. Do you want to put HoDAG in, too?

Senator DODD. No; we will just restrict ourselves to the block grants.

Secretary PIERCE. UDAG and CDBG.

Senator DODD. What effect would there be on the local taxing base.

[The following information was subsequently submitted for the record:]

Question. What effect would the CDBG reduction and UDAG elimination have on the taxing base in Connecticut?

Answer. We have examined the effects of the UDAG elimination and CDBG cutback on the State of Connecticut and on the three largest cities in Connecticut. In fiscal year 1985, the State will receive a total of $39.2 million in CDBG grants (both Entitlement and State Small Cities). A 10-percent reduction would therefore amount to $3.92 million, which is only one-tenth of 1 percent of State revenue of fiscal year 1985 ($3.869 billion). The elimination of UDAG would result in an estimated annual loss to the communities in the State of $9.35 million, assuming the State continued to receive UDAG funds at the same rate and amount of the past 2 years. This loss, too, comprises a miniscule percentage of total State revenue—one-fourth of 1 percent of State revenues.

The overall fiscal condition of the State appears to be very healthy. Unlike the 1981–83 time period, when the State ran up sizable deficits, the State's Office of Financial Management has estimated that the fiscal year 1985 State surplus will be $233 million, which is nearly 18 times greater than the estimated loss of CDBG and UDAG funds.

The losses experienced by the State's three major cities (Bridgeport, Hartford, and New Haven) would be somewhat greater relative to total revenue, but would still comprise a relatively small proportion of total revenue. Taken together, the CDBG reduction and the loss of UDAG grants (assuming the cities continued to receive UDAG funds at the same rate and amount of the past 2 years) represents 1.77 percent of their fiscal year 1985 revenues. For the individual cities, the percentage of revenues is: Bridgeport, 2.8 percent; Hartford, 0.62 percent; and New Haven, 3.7 percent.

SUMMARY OF REVENUES, EXPENDITURES, FEDERAL GRANTS FOR CONNECTICUT AND ITS THREE LARGEST CITIES

[Dollars in thousands]

	State of Connecticut	Bridgeport	Hartford	New Haven
Fiscal year 1985:				
Expenditures [1]	3,627,000	[2] 181,179	239,650	[2] 159,323
Revenues [1]	3,869,000	181,189	244,111	159,323
From property taxes	([4])	[3] 99,484	113,587	79,323
Fiscal year 1986:				
Expenditures	[2] 4,011,000	([4])	[2] 255,960	[2] 169,694

SUMMARY OF REVENUES, EXPENDITURES, FEDERAL GRANTS FOR CONNECTICUT AND ITS THREE LARGEST CITIES—Continued

[Dollars in thousands]

	State of Connecticut	Bridgeport	Hartford	New Haven
Revenues	4,011,000		255,960	169,694
From property taxes	([4])		127,399	82,513
UDAG:				
Calendar 1985 (1st rd.)	[5](2) 13,814		[5](1) 3,314	[5](1) 10,500
1984	[5](5) 7,982		[5](1) 1,318	[5](1) 6,000
1983	[5](4) 10,730	[5](1) 4,750	[5](1) 810	[5](2) 5,170
To date (1978–85)	[5](30) 65,746	[5](3) 5,820	[5](11) 28,242	[5](6) 26,600
CDBG:				
Fiscal year 1985 Metro	28,753	4,005	4,590	4,433
Nonmetro	10,481			
Population	3,107,576	143,745	136,334	125,348

[1] General fund projections, except as noted.
[2] Budgeted; no projections available.
[3] Includes personal and real property taxes.
[4] Not available.
[5] Excludes canceled, terminated awards. Number in parens.

Have you seen Mr. Stockman's testimony today?

Secretary PIERCE. No, I have not.

Senator DODD. You make a statement with which I don't disagree. You talk about the Urban Development Action Grant Program and how it has been a good program, but because of the budget constraints, a good program will have to just suffer.

But the reason I am curious is I see in the Director's testimony—he has some 50 or so pages of testimony on the UDAG Program—and cites a number of reasons for terminating the program: Insufficient national priority in the current austere environment; UDAG's are not effectively targeted. He goes on: the demand is open-ended; UDAG leverage—it goes on and on about all the various inherent problems with the Urban Development Action Grant Program.

Yet to read your testimony, at least the opening sentence on page 8, it says "UDAG has been a good program."

Secretary PIERCE. It is no secret, I think David and I have had differences over the UDAG Program since 1981, and we have been going back and forth about that program since 1981, and it has been kept in the budget until now, and now it is out, and for the reasons I stated, because we are knocking out a number of programs that are geared to help local economies. We think the local economies can pretty much take care of themselves on the basis of the improvement in the economy.

But there are differences between us on this. I think it has been a good program. There are many, many examples I can give you. In fact, I just happen to have a paper in front of me on a UDAG project in Hartford, CT, your State. There is a project there that you probably know about. Aetna Life and Casualty Co., the developer and so forth, did a lot to reconstruct the downtown area of Hartford, CT.

There was an action grant of $5,870,000 and private investment of $40,261,000 and a ratio of $1 of public money for $6.9 of private

money. It created 1,045 new permanent jobs. It brought about an annual property tax increase of $956 million.

Senator DODD. You have convinced me. [Laughter.]

Do you have any more suggestions for Connecticut?

Secretary PIERCE. My statement is that these programs in the past have done very well, but the point is we are trying to cut the budget because deficit reduction is so important to us, and it is a question of where you cut, and we have our Chief, the President, who makes the final decision on where that cut comes, and this year he has decided UDAG and a number of other programs that are geared to assisting local economic development should be cut.

And that is about all I can say about it. I cannot say that I think it was a bad program. I don't believe it was a bad program.

Senator DODD. I couldn't agree with you more on that. We will certainly try to do our best to help you out up there. [Laughter.]

Secretary PIERCE. I don't know if that will help me. [Laughter.]

Senator DODD. You are our kind of guy, Mr. Secretary. [Laughter.]

Secretary PIERCE. We will do whatever is best for the Nation. [Laughter.]

Senator DODD. I couldn't agree with you more, and I gather what you are telling me, in a sense, you are not going to have any argument with anyone on this subcomittee or, for that matter, anyone in this body over what you just said about the determination to reduce our deficit. As you point out, there has been a tremendous economic boom that has accrued to this country.

I won't ask you that now because my time has expired right here, but I think there is a significant difference between reducing the kinds of dollars we put into a program like this and the total termination of it, and I think as we try and achieve even the targets the President has mentioned in conjunction with the Republican leadership of this body, we might have a greater sense of balance.

And I think it would be certainly worthwhile if maybe at some point over the next week or two we might ask you—in fact, I will now ask you to submit to this committee the possibility of a proposal to reduce the UDAG Program that would reduce the Federal dollars in this program and would allow the program to be sustained, particularly in some of the very, very needy areas of the country where this program has been so helpful.

Let me ask you for that.

Secretary PIERCE. It would be very difficult for me to do it at this point because there is some negotiation, in a sense, going on between the Congress and the administration about where all this money should be spent.

Senator DODD. You have already negotiated with OMB, and you lost on that one. How about negotiating with us?

Secretary PIERCE. I think it would be very difficult for me to do that, given the situation. There are negotiations already going on. I wouldn't want to do anything to try to undercut or put myself into those negotiations any more than I am.

Senator DODD. My time has expired.

Senator HECHT. Senator Heinz.

CUTS FOR HUD

Senator HEINZ. Mr. Secretary, just to put the entire budget matter in perspective, and talking of the administration budget proposal versus baseline current policy, what is the total amount cut from the baseline in terms of the total amount of money saved in 1986 in the administration proposal?

Secretary PIERCE. Are you talking about for the entire executive branch?

Senator HEINZ. As the cut affects HUD.

Secretary PIERCE. As it affects HUD, let's see—let me get the exact amount.

[Pause.]

Secretary PIERCE. It is $2 billion, I understand.

Senator HEINZ. $2 billion in outlays in 1986. How much in budget authority?

Secretary PIERCE. Let me have Mr. Kliman come up here. He has those figures with him, I do believe.

Mr. KLIMAN. Senator Heinz, I didn't bring my table on the budget authority so I can give you all the outlay baseline cuts you want. I can supply you the budget authority reductions for the record.

[The following was subsequently supplied for the record:]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—BUDGET AUTHORITY COMPARISON (CURRENT SERVICES VERSUS BUDGET REQUEST) 1985–90

[In billions of dollars]

Total (HUD)	1985	1986	1987	1988	1989	1990
Current services	31.6	18.5	19.1	19.3	19.6	20.0
Budget request	31.0	7.0	8.1	11.6	11.8	12.1
Difference	−.6	−11.5	−11.0	−7.7	−7.8	−7.9

Source of data: 1986 Congressional Justifications for HUD—March 1985 summary tables.

Senator HEINZ. What is HUD's fiscal 1985 expected level of outlays?

Mr. KLIMAN. In fiscal 1985, including the purchase of the short-term notes that the Secretary referred to earlier, it is about $28 billion. If we cut that, it would be down around $15 billion.

Senator HEINZ. So you expect outlays to be roughly $13 billion in fiscal 1986?

Mr. KLIMAN. In fiscal 1986, our budget outlays would be $15.379 billion.

Senator HEINZ. That is assuming that we were to enact the President's proposal?

Mr. KLIMAN. If you enacted the President's proposal, that is correct.

Senator HEINZ. And in 1987?

Mr. KLIMAN. In 1987, the budget outlays would be $14.3 billion.

Senator HEINZ. And in 1988?

Mr. KLIMAN. $13.8 billion.

Senator HEINZ. What would current policy be in 1988?

Mr. KLIMAN. In 1988, current policy would be $18.3 billion.

Senator HEINZ. So you are saving, what, about $2 billion; in the third year you are saving not quite that, about $4.5 billion?

Mr. KLIMAN. That is correct.

Senator HEINZ. Let me ask the Secretary this question. Don't go away, you may be needed.

Mr. Secretary, if Congress was to decide to restore a portion of the cuts that the administration has asked for— let's say 25 percent of the cut—what area do you think would most merit restoration? Would it be public housing modernization? Would it be UDAG? Would it be CDBG? What would it be?

Secretary PIERCE. I would put it into the vouchers. I wouldn't have the moratorium. I would put it directly into the vouchers now. That would be my first choice.

Senator HEINZ. If you couldn't sell Congress on that, on vouchers, what would be your second choice?

Secretary PIERCE. It would be to get new assisted housing units. If they don't want vouchers, maybe we could get section 8 existing certificates or a certain amount of rehabilitation.

However you put this together—there are a lot of different ways—but it would be in the area of actually increasing the amount of assisted housing. That would be my first choice.

Senator HEINZ. One of the concerns of some of my public housing authorities is the reduction in modernization grants. Should we give that a fairly high priority or not?

Secretary PIERCE. I think we are going to be able to work that out all right, but it would be a process of thinking together, more or less. If Congress said we are going to have so much more money, and maybe they will, then I think we have to talk about that and see what is realistic.

I would give it a high priority, yes, because it is helping take care of the poorer people. So I would give it a high priority. But the exact amounts of money I think would be open for this discussion.

Senator HEINZ. How much of the 1986 savings comes from the scale-back from, as I understand it, a level of $1.8 billion to $175 million—I don't know whether that is budget authority or outlays—on public housing modernization?

Mr. KLIMAN. Senator Heinz, the scale-back is not on exactly the same terms. When we go back from $1.8 billion to $175 million, we are also proposing to change the entire financing of the program, from a program in which we pay out over 20 years to one which pays out on a capital basis. The figure would be in the neighborhood of $350 million. On a prior financing basis, there are no outlay savings in 1986, however, from that proposal. The savings would have to be deferred to a future year.

Senator HEINZ. To sum up, your priority would be vouchers; if it couldn't be vouchers, it would be some other housing assistance.

Secretary PIERCE. Improving existing housing.

POSSIBLE RISKS FROM BIG CUTS

Senator HEINZ. Let me shift to a slightly larger focus. If you add up the variety of cuts, trims, eliminations, and so forth in your budget, UDAG, CDBG, rural housing, modernization, operating assistance, and so forth, and you also take into account the elimina-

tion of revenue sharing—which is about a $4.5 billion a year program—and the termination of mass transit operating systems and the production in capital assistance under mass transit—I recognize those are not specifically in your bailiwick—do you see any risk that there would be such a change in the funding streams to our cities that they will not be able to cope with that kind of funding cut shock?

Secretary PIERCE. Well, that's been debated and debated within the administration and without and you can get arguments on both sides.

Senator HEINZ. What's your opinion?

Secretary PIERCE. The argument of the administration or the view that the administration takes is that since 1981, since we got here, the economy has improved a great deal to the benefit of cities and localities and States, that there are many States now that have a surplus as well as many localities that have a surplus and that because the situation has changed substantially, the States, cities, and localities will be able to substantially replace a lot of these programs that are being cut out or being cut back. And that's the thinking that they will be able to take care of them.

On the other hand, the Federal Government is in a very desperate position as far as its deficits are concerned and at this point in time we need to reduce them.

Senator HEINZ. Let me ask you this. Of course, the name of your Department is Housing and Urban Development. Has your Department done any studies to see if the surpluses to which you referred a moment ago—the State surpluses and any municipal surpluses—coincide with areas or jurisdictions that use the moneys of your Department.

That is to say, if very little of your money goes to the State of Wyoming but Wyoming has a large budget surplus, have you overlaid those—if you will—needs versus these alleged surpluses to see if there's a fit?

Secretary PIERCE. Actually, we thought about it but we have not made any thorough study. As I told Senator Dodd, we have not made any thorough study. We've certainly thought about it and we've had estimates made by people who are supposed to be skillful in these areas. But currently there has been no thorough study.

Senator HEINZ. Who are these experts who are supposed to be?

Secretary PIERCE. People in my Department in research on Dr. Koch's staff.

Senator HEINZ. It's been proposed that HUD take over rural housing and I'm advised that there are some 700 counties where there are currently Farmers Home Administration agencies that service the potential home buyers because there are no financial institutions in those counties. Therefore, it's pretty hard to get loans if you don't have a bank or an S&L.

Do you have any concerns that HUD may not be able to administer whatever Rural Housing Program we end up with, if any?

Secretary PIERCE. I have no problem with that. I'm sure that we could handle that.

Incidentally, I might add that a lot of Farmers Home Administration offices are going to be done away with, at least half of them will go. So, I have no worry about being able to handle the situa-

tion. We do get into rural areas now with 202's. We get into rural areas with the section 8 existing programs. We're into rural areas with a lot of our programs already, so I have no problem saying that we would be able to handle it.

Senator HEINZ. One last question. Do you view the enterprise zone proposal, which I think many of us support, as a substitute for the Urban Development Action Grant Program?

Secretary PIERCE. No; it's not a substitute for it. It is something different. They're not the same but if you don't have one, you could at least have the other.

Senator HEINZ. They both are aimed at the same objective which is job creation. In that regard they're the same; are they not?

Secretary PIERCE. Oh, yes. They're both seeking to create jobs.

Senator HEINZ. But as you say, you'd like to have one or the other.

Secretary PIERCE. I'd certainly like to have one or the other, yes.

Senator HEINZ. Would you like both?

Secretary PIERCE. Well, you know, as I said, this is up to the Congress to decide. For the good of the Nation, you can decide.

Senator HEINZ. Thank you very much. My time is expired.

Senator HECHT. Senator Sasser.

Senator SASSER. Thank you, Mr. Chairman.

I'd like to say briefly, though, that I'm very much concerned about the disproportionate share of cuts that are being leveled at our Nation's housing development programs.

I think the administration is making home ownership more difficult for lower and middle-income families by increasing the fees they're going to have to pay. Rental units for lower income, elderly, and handicapped tenants are becoming less available and the numbers of homeless people, I fear, are going to be increasing in our communities.

These and other issues affecting cities and the lives of their citizens, such as mass transit and those who live in our rural areas, make this a very important hearing.

So I'm delighted that you're having it here this afternoon, Mr. Chairman.

RURAL HOUSING

Mr. Secretary, you alluded a moment ago to a cutback in the activities of the Farmers Home Administration, notably, in rural housing. And you're indicating that in your view, HUD can take up the slack here. Now, I believe that as part of the new austerity measures that are being proposed for HUD, you're going to be called upon to reduce your staffing levels rather substantially; are you not?

Secretary PIERCE. We've pretty much reduced our staff as much as we're going to, maybe a few hundred more or something like that, but it's basically been cut down.

Senator SASSER. By what percentage have you reduced your staffing at HUD over the past 4 years?

Secretary PIERCE. The 4 years? From about 16,000 to 12,000.

46-548 O—85——25

Senator SASSER. So you've reduced it by about 4,000 and you intend to make additional reductions in force in the coming months?

Secretary PIERCE. Some, but not very many. Most of them will go by attrition.

Senator SASSER. You do intend to close a number of HUD offices around the country. I know of one or two you intend to close in my State. How many HUD offices do you intend to close nationwide?

Secretary PIERCE. About six, I think.

Senator SASSER. Just six?

Secretary PIERCE. I think it will be about six that are not closed already.

Senator SASSER. Two of them in my State. [Laughter.]

I think I'm being discriminated against.

Secretary PIERCE. One or two in your State.

Senator SASSER. Memphis and Nashville.

Secretary PIERCE. No, I think you're wrong.

Senator SASSER. How about Memphis and Knoxville. [Laughter.]

Secretary PIERCE. I think we'd better check it. I think we only have one.

Senator SASSER. Well, I'm being told from people in my State that they're about to propose that Memphis and Nashville consolidate and you're telling me that's not the case? Your staff back there say that is not the case.

Secretary PIERCE. I think you're mistaken. I don't think there's two.

Senator SASSER. That's a relief. We're just going to lose one out of the three.

Secretary PIERCE. One out of six.

Senator SASSER. I'm talking about my State. We'll worry about the rest of the country in just a moment. [Laughter.]

Mr. Secretary, in times past you have indicated that you thought rather highly of the UDAG Program and I must say that I've concurred with you in that judgment. Now, some claim that UDAG encourages politically influential communities to trap developments that otherwise might not come to that community. That allegation may be made in some testimony we're going to hear later today.

Now, section 119H prohibits raiding, that is, taking industry from one community to another using UDAG funds. How have you made sure that that provision in the law was applied in such a way that there was no raiding?

What I'm getting at, Mr. Secretary, is how have you made sure that UDAG funds are provided for the net economic benefit of the whole Nation and not just moving economic activity from one location to another?

CASE-BY-CASE BASIS

Secretary PIERCE. We think it has been taken care of to a great extent. We've just recently started to change the regulations to make it even more stringent. But the main thing is, on a case-by-case basis, you have to look at each particular case and study the surrounding circumstances to make sure it's not just pulling jobs

from one area to another. And we have had a good deal of experience with that.

We had a situation not too long ago involving Racine, WI, and Des Moines, IA. There was simply involved the movement of a business from one place to another so we didn't do it. We dropped the case.

So we study these matters very carefully. Each time it comes up it's on a case-by-case basis. We try to make sure that that rule is applied. Sometimes it becomes very difficult. We've been having a very difficult time recently with New York and New Jersey. There seem to be a lot of businesses that want to leave New York to go to New Jersey.

So the question is: Is this really just taking jobs from one place to another? It's very difficult. You have to go on a case-by-case basis and that's one of the reasons we changed our rule, to some extent, to try to make it even more clear to people under what circumstances they can move from one area to another, what they have to do and so forth. But we watch it very carefully and we've stopped a number of cases where it has simply been moving a job from one section to another.

Senator SASSER. So under your administration, and pursuant to section 119H, you exercised great care to see that we're not just pulling jobs from one region to another.

I note in the testimony of Mr. Stockman that I think we'll hear later, he makes the accusation that UDAG frequently pirates jobs from other localities. And then he cites a UDAG in Memphis, TN, which he said helped International Harvester consolidate jobs from other plants and enter a new product line with its cross-competitor, Deere & Co. We're talking about John Deere, and John Deere needs all the help it can get. I can personally vouch that that accusation is not accurate.

Mr. Secretary, the International Harvester plant in Memphis, TN, is closed and those funds are coming back, I presume, to haunt. International Harvester has given up the ghost down there, and there are about 2,000 people who've already lost their jobs. So this is one accusation that UDAG funds are being used to pirate jobs from one locality to the other. That just is not accurate and the International Harvester plant in Memphis, TN, that operated for 50 years is closed down.

So, I really think that the burden of proof is on those who would seek to level the accusation against HUD and against the UDAG Program that this program does, indeed, pirate jobs from one area of the country to another. And I have great difficulty in buying that particular argument.

What reasons were given you, Mr. Secretary, for overriding what I presume to be your wishes and those of other Secretaries who preceded you, to keep the UDAG Program going. What reasons were given to you by OMB or the administration?

And I say that for this reason: I'm going to be called upon to make those explanations myself if UDAG is, indeed, sunk. I'm going to be having to make those explanations to mayors and county executives all across my State who uniformly support this program, who think it's been helpful and very cost efficient. What were the reasons?

Secretary PIERCE. Let me start again from the beginning. There have always been those in the administration who thought that the UDAG Program was not a good or efficient program and we've had differences about this program every year since I've been here, from 1981 up to now. At this point, we need very much to decrease our deficits.

The rationale is that a number of programs that support local economic development should be cut from the budget because at this time the cities, localities, and States should be able to handle these programs pretty much themselves; that the economy has greatly improved between 1981 and now; that a lot of the cities and States have surpluses that did not have them in 1981; and that for all these reasons, the improvement in the economy, the improvement in the financial conditions of State and local governments, have made it so that a lot of these programs—or a number of these programs—are not absolutely necessary, particularly in light of our budget problems. That was the most important thing and we said, well, it's more important to reduce the budget deficit because it can really have a terrible economic effect on the Nation as a whole at some future point.

Well, that's the rationale that has been used and it's what we have followed.

Senator SASSER. Well, of course, we're all worried about the deficits but there may be other ways to deal with the deficits, other than emasculating this program that has been responsible for substantial economic development, job creation, and revenue reflows over a period of many years.

Mr. Secretary, some of us are going to do our best to see that this UDAG Program is at least partially funded. But I should mention that if we are successful in doing so I do hope that the formula can be changed in awarding these grants so that it will indeed be a national program. I have felt, in recent months, that my State has been discriminated against.

I've discussed this with you in some detail. I see my colleague from Texas is here today and there's been some feeling that our States in the Southeast have not been getting their fair share because of an unfair formula that was written into the UDAG Program some years ago.

Secretary PIERCE. It's part of the law.

Senator SASSER. As you now know, it's part of the law. We're going to have to change it here. But I do hope if we get into changing the formula, that at least we get some people from HUD to smile favorably on that.

Thank you, Mr. Secretary.

Senator HECHT. Thank you. Senator Gramm.

OPENING STATEMENT OF SENATOR GRAMM

Senator GRAMM. Thank you, Mr. Chairman.

First of all, let me say in a brief opening statement, that there is clearly a difference of opinion as to whether HUD or any other agency can create jobs by spending money. The problem is the money doesn't come from Heaven. It's added to the deficit, it's taken out of the private sector, and the idea that we can, in a

period of deficit spending, increase employment with tight capital markets by spending money flies in the face of everything we know about how the economy works.

AGE OF HOUSING SITUATION

When we received UDAG in Texas, we've been grateful for it. We don't think we're getting enough. If you are going to keep giving it away, we want more of it. We are going to move to strike the provision in the bill that primarily deals with the age of housing. We think you should take into account the status of housing and relative income. By bringing in the age of housing, you clearly produce a discrimination against the West and, to a large extent, the South. That's a provision that I would like to see changed.

Of course, that provision is not just in UDAG, it's in a lot of other programs. I would like to begin by asking you your opinion on the desirability and feasibility of changing our formula to remove age of housing but still keep a proxy for what you're trying to get at, which is quality of housing and property.

Secretary PIERCE. Actually, I would not like to get too deeply into the formula. I do agree that in this day and time, the formula should be changed. Exactly how it is changed, I think, is basically a problem for the Congress. We, of course, will answer any questions or help in any way we can in giving you advice if it comes to that. But, at this time, I would not like to say what I think that formula should be, or even what should be the important parts of it, particularly since it is the administration's position that there should be no UDAG.

Senator GRAMM. Mr. Secretary, it does not come as any surprise to me that you like the programs you administer, and I guess I'm happy about that, but the relevant question is: Do we want to maintain the recovery which has put 7½ million people to work or, do we want to maintain these programs?

If you had your choice between maintaining the recovery or keeping this $2 billion in your budget, which would you choose, given the objective of promoting housing and urban development?

Secretary PIERCE. Well, there's no doubt about it that if that were really the case and it came down to that, I would have to say that I want the recovery; I think anybody would.

Senator GRAMM. In terms of the impact that we might have on interest rates by bringing the deficit down about 50 percent in 3 years, as the President's compromise with the Republican leadership proposes, do you see that as having a favorable impact on housing and urban development nationwide that could exceed the impact of the reduction of $2 billion?

Secretary PIERCE. There is no doubt about it that interest rates are very key to keeping our economy going. And as interest rates come down, of course, the economy will improve even more, particularly in the areas of housing and urban development.

So I would say that those things would help greatly, there's no doubt about it, to keep our interest rates down.

Senator GRAMM. I know that you operate HUD in rural areas. Those of us from rural areas have this idea that HUD is basically an urban program. If we come to depend on HUD for the functions

that are currently provided by FmHA in rural areas, would you object to trying to set out some reasonable guidelines that would allay the fear of those who live in rural areas and depend on the housing programs of FmHA?

Secretary PIERCE. I can assure people in rural areas that that will not happen. They will be well taken care of. As the HUD name indicates, the agency does have an interest in urban development, but it is not a big city organization. Housing is for all people whether they live in urban, or suburban, or rural areas. We will make sure that people residing in rural areas are treated in a fair manner and that they get everything that the law allows them. And we'd be willing to make that statement anywhere, and willing to tell you or anybody else that; and make sure that's what happens.

Senator GRAMM. Let me conclude, Mr. Chairman, by just simply saying we had a discussion about trying to keep these programs alive but at greatly reduced levels. The concern those of us who are fearful of the deficit mess, have is that it's hard to control spending of programs that are still in existence and still have political constituencies. I remember vividly in 1981 when we were putting together the President's budget in the House we had come up a few votes short. We went back and cast the nets out again and found that by funding EDA for 1 more year that we brought a couple of more souls into the group of the faithful. The reconciliation bill, passed by two votes.

It was a 1-year extension of EDA that let everybody get prepared for the new reality that they weren't going to have EDA. The problem is EDA is still in existence today and we are debating the 1986 budget.

I would submit that a movement toward preserving even nominal funding for programs that are targeted is really a movement to sort of hunker down a little bit and let this wave of fiscal responsibility, which I hope is about to develop, wash over and then, on a gradual basis, as we have done in fact in 1983 and 1984, let these programs get refunded.

That's why, Mr. Chairman, I think that if we are going to live within the budget, we are going to have to terminate programs. That's why I support it.

Thank you.

Senator HECHT. Thank you, Senator.

Senator Proxmire.

Senator PROXMIRE. Thank you, Mr. Chairman.

Mr. Secretary, that's a very impressive chart you have got over there (see page —). Of course, it has a couple of problems with it. One is that it gives the impression, when you look at it, that family assistance has gone from practically nothing to $4,300,000. And it looks as if the debt has gone down from $240 million—it's hard to read from here—down to zero, just about.

VIEWS OF CBO

But, as I'm sure you'll agree, it's zero suppression so it's not that much of an improvement.

Furthermore, although it does show that you have a drop in housing debt and a big increase in families assisted, the Congressional Budget Office [CBO], has a different view of this. And I would like your comments.

Their analysis shows that two-thirds of the number of units that you claim to have added were budgeted for and committed before you took office.

Second, their analysis shows that almost two-thirds of the debt reduction you're claiming, is what I call creative bookkeeping, and, not real savings in tax dollars.

Here's the way they explain that reduction in debt you claim. They say that for giving the direct PHA loans and the associated HUD borrowing from the Treasury, coupled with rescinding the means to repay these loans, simply represents canceling intragovernmental transfers. The decrease of an outstanding balance of $23 billion in 1985 and another $5.8 billion in 1986 would not represent real savings to the Federal Government.

How do you respond to that? Are there any real savings?

Secretary PIERCE. I respond that I think they are real, absolutely. And let me explain this. There were units in the pipeline. We could have knocked many of them out if we had really wanted to. We could have prevented many of them from coming through.

Senator PROXMIRE. They were in the pipeline.

Secretary PIERCE. Let me finish because this is only one thing. There are other things. For example, there were housing units in the pipeline that were inadequately financed. We had to get amendment money to those projects so that they could exist, so that they could come into being. And we did that.

We also had something, you might remember, called the financial adjustment factor. There were a lot of builders of assisted housing who said, "We're not going to build because interest rates are too high."

So what I did was I got together a thing called the financial adjustment factor [FAF], which subsidized a certain amount of the interest on loans builders made to construct assisted housing. That encouraged them to do the building. Now 87,000 more units were built because of that.

If I start going through this, there's a lot of units we could have killed, knocked out, if it weren't for the actions that we took. We did that.

Senator PROXMIRE. They were legal obligations. You're talking about killing them. But, killing them and adding them is something else. They were added by a previous administration.

Secretary PIERCE. We deobligated a number of units. We could have deobligated even more. And I might say, in the 1981–82 era, the Congress was going right along with us, if we took the number down. As a matter of fact, I think they deobligated more than we suggested in 1981 or 1982. So they were going right along with us. We could have knocked out a lot of these.

So, in other words, we said we want these to be. We want them to exist. And if we didn't get them, then we'd ask for them. But, since they were coming down the pipeline, there was no need to ask for them.

So those are all our doing. That's our doing.

Senator PROXMIRE. Well, because you didn't knock out what a previous administration put in, you claim credit for what they put in.

Secretary PIERCE. We controlled the amount of assisted housing that came into existence. For example, we might say we don't want 200,000 houses this year, we only want 100,000. We would deobligate a certain number. If we wanted to, we could deobligate some more. The 200,000 was what we wanted.

Senator PROXMIRE. That reminds me, let me just say this, of Disraeli's remark about Gladstone, when he said he didn't mind Gladstone having an ace up his sleeve but he did object to his contending that the Good Lord put it there.

It seems to me that's what you're saying.

Secretary PIERCE. No, I'm not. That's a funny story, but it has no relation to what we're talking about. [Laughter.]

Senator PROXMIRE. You are saying, I didn't destroy the Mona Lisa, and, therefore, I deserve credit for having painted it. [Laughter.]

Secretary PIERCE. I think, sir, maybe it would be easier for all if you put the Congressional Budget Office material in the record and we'll put ours in the record to show the difference between the two. And then all people can read and understand and make up their own minds.

Senator PROXMIRE. Thank you very much, Mr. Secretary. I've got another meeting, unfortunately, Mr. Chairman, but thank you very much.

Senator HECHT. Thank you very much.

Let us have about a 30-second break to allow different ones to go out and the new ones to come in.

Thank you, Mr. Secretary.

Secretary PIERCE. You're welcome. Thank you.

[Recess.]

Senator HECHT. We will now hear testimony from David Stockman, Director, Office of Management and Budget.

Mr. Stockman.

STATEMENT OF DAVID STOCKMAN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. STOCKMAN. Thank you, Mr. Chairman.

I appreciate the chance to appear before your committee. Let me just clarify from the beginning that I have submitted a quite lengthy statement here because I intend to try to provide information to the committee on those items in your jurisdiction that have been included in this massive budget reduction plan that's been agreed to between the administration and the Senate leadership.

What I'd like to do today is simply skip through my testimony, call attention to the basic arguments that were made on behalf of these changes, and some of the data that we have provided. But, obviously, there is far more here than can be covered in one hearing.

Let me also clarify that you originally asked me to testify on behalf of the administration's budget, since, in the process of working on that compromise, some things have changed. Many of the

proposals that have been recommended have been included, but some of them have been modified or changed. So this entire testimony is geared to the actual package that will be brought to the Senate floor next week, and compromises and proposals have been included in it.

So I would like to have the testimony submitted for the record and then proceed to summarize it as quickly as I can.

Senator HECHT. Without objection.

Mr. STOCKMAN. Mr. Chairman, I would just like to give an overview of the fact that your committee has drawn a fat straw, so to speak, in putting this budget reduction plan together. I would call your attention to the first page on the cover. This indicates the summary of the major programs that are in your jurisdiction that would have either complete termination or major reductions involved.

REDUCTION IN EXCESS OF $27 BILLION

In the compromise, the Senate administration budget reduction plan, if you look under the total column, you can see that for all six of these programs, on a 3-year basis, the budget authority reduction is in excess of $27 billion, the outlay savings more than $15 billion. And they are distributed between UDAG, the Rural Housing Programs, the Mass Transit Programs, Government sponsored credit agencies, user fees, Eximbank and the smaller programs, as displayed in this table.

What I'm going to do now, with your agreement, is go through each section quickly and point out the major arguments.

I would like to start with UDAG, which begins on page A1. That program is proposed for complete termination, and there are five basic reasons why we have come to this conclusion, recognizing, at least from the local point of view, it has done some good in the past if you look at the local effects.

But I would suggest that in the current austere budget environment, where we are facing a $200 to $250 billion deficit, with all the existing pressure on the programs, to satisfy stringent zero-based budget criteria, UDAG doesn't meet these five reasons, given the size of the reduction package we have to have.

No. 1, it doesn't serve any clear national purpose as opposed to local purpose. Now, 55 percent of all the UDAG dollars over the last 8 years, 1978–85, have gone basically for local commercial development projects like hotels, motels, office buildings, parking lots, shopping malls, shopping centers, and so forth.

This does help local development and local jobs, but not on a net national basis, since we have to either tax to raise the money or borrow the money, and that causes offsetting results in order to make these funds available.

In the current context though, I would suggest to the committee today that when our manufacturing sector is taking a beating, and agriculture is taking a beating as a result of these big deficits, the high-interest rates, and the high dollar, we simply can't afford to be channeling extra investment into local commercial development because that isn't our highest priority at the present time. We can't afford to make these big expenditures.

Second, UDAG is not a targeted low-income program, although, like most Federal programs, there is some aspect that can be raised in terms of low-income benefits. Basically, in putting this huge budget reduction package together, we have had to say that the program will be exempted if it is preponderently and almost entirely putting its dollars into low-income benefits.

For that reason, the safety net programs like AFDC, SSI, and so forth, have not been cut. The proposal to spend $227 billion on those programs over the next 3 years was cut only $4 billion. But, in the case of all other programs where there are mixed benefits to the whole spectrum of income levels and, to all sectors of society, we simply can't afford to continue them on the grounds that they may do some good in the low-income communities.

UDAG clearly falls into this category. The 61 percent of the housing units that UDAG has funded, for instance, are for middle to upper income units, not low income. Really, half of the jobs are for higher paying higher skilled jobs, not low-income jobs.

Finally, although there are distress criteria in the formula, a large fraction of all the cities, both large and small, in the country are eligible.

The third reason we think it has to be eliminated is that although it was originally designed to target money into the Northeast, the gains that we are getting in the cities and the general economy in that region as a result of the economic recovery from 1982 forward far overwhelm or swamp any gains that may come from UDAG-specific investment.

I point out, for instance, that nearly half of UDAG grants have gone to the Northeast, the 11-State region, yet by the end of 1984 the average unemployment rate there was 5.1 percent compared to 7.1 percent nationally.

So I don't think we can make an argument that we continue to need this program because we are putting money into regions of the country that are falling behind. That is not the case.

Also, it is clear to me that as a result of the open-ended eligibility of this program you can always spend what we appropriate or make available. At the present time, for instance, the pipeline of eligible demand is $575 million. There is only $192 million left for the entire remainder of the year funded, and that 3- or 4-to-1 demand in excess of available dollars will continue as long as we have such an open-ended, broadly based program.

Finally, the fifth argument we would make is that much ado has been made about the leveraging ratio of something like $6 private immobilized for every $1 in UDAG.

The fact is that leveraging ratio is a bit misleading. Not included are the public dollars from other Federal programs, including EDA and Farmers Home Administration, as well as local and State funds. When you take those out, the leveraging ratio drops to 3.8 to 1.

Further, much of the remaining private dollars are retireable and are tax-exempt financing. That, of course, provides a big drain on the Treasury and provides private dollars that otherwise wouldn't be there.

The true leveraging ratio probably isn't much greater than 1 to 1 if you offset all the other public moneys that are involved—local

tax abatement, federally tax-exempt bonds, or IDB's—with all the different grants that go into the mix.

LOCAL COMMERCIAL DEVELOPMENT

I think it is important to point out to the committee that the No. 1 point I made regarding most of these grants going to local commercial development projects clearly isn't the priority today. The priority is to repair the ill health in our manufacturing and agricultural sector.

On page A3, we point out that more than $2.3 billion, or 55 percent of all the UDAG dollars in its entire history, have gone to commercial type UDAG's.

On page A4, we have a breakout of the type of projects that they have gone to. If you look at this table on page A4, you will see we have built about 254 hotels and motels, 223 shopping centers and malls, 340 office buildings, 62 recreation facilities and sales centers, 41 restaurants and caterers—nearly 1,000 projects, $2 billion in UDAG money alone, nearly 88 percent of the total.

Now, my point today is that there isn't anything wrong with local commercial projects, shopping centers, hotels, or malls, but the point is, given the kind of extreme budget bind that we are in and the enormous reduction that has to be made in spending, that these kinds of investments have to occur in the private sector on their own. We can no longer put Federal dollars behind them.

On page A5, I try to underscore this point by giving you the trend from 1978-85 in terms of national output in job growth in the hurting sectors of the economy versus the service sector, where all of this UDAG investment has gone. If you look at that, you can see over the last 7 years we have actually had a 3-percent contraction in employment in manufacturing, 2-percent in agriculture, really a 21-percent increase in the service sector, which basically means that on the national level plenty of dollars, plenty of investment without Government aid is flowing into the commercial sector and we don't need to be using scarce tax dollars the way we have with these commercial UDAG's.

In the next couple of pages, I have provided a few examples of the kinds of, let's say, foolish projects that are funded. I won't go through all these, but I hope the committee members will look at them because these are not selected just to be horror stories. They are pretty good examples.

I want to focus on one of them, though, because it is my old congressional district. I know the town well. It is not a depressed town. It is one of the many thousands of towns, average, normal in every way, throughout middle America. They got $3.3 million for UDAG. For what purpose? To construct a marina, a boatyard, a restaurant, 16 condominiums, and 200 dockominiums at the mouth of the Black River. That is a nice benefit to have for that town, which is a resort town, but clearly that isn't the kind of purpose that we can spend Federal dollars on today, given the fact that we are $250 billion in the hole each year in our budget.

Similar projects are shown on the next page—ski resorts, helping to keep Kellogg's world corporate headquarters in Battle Creek after 50 or 60 years—whether the taxpayers have any obligation to

keep it there in the first place—building a horse arena in a town in Georgia, and having a nice swimming hole off the coast of a place in Puerto Rico.

These all can be justified within the context of the framework of UDAG. They do create local investment. They do create jobs. The argument here is that we just can't afford them.

UDAG has put some money into the industrial projects. We try to point out, though, on page A7 in this testimony, that the 30 percent of UDAG dollars over the years, about $1 billion going into industrial-type projects, is simply dropping a pebble into the ocean in terms of the underlying private flows in and out of various sectors of our economy.

If you look at this table, you can see where the UDAG dollars have gone, you can see the $2 trillion flow of private investments during the same period. The UDAG dollars amount to three-tenths of 1 percent. Basically, they are totally overwhelmed and irrelevant, from the national point of view, in terms of the ebb and flow invested in our industrial economy.

Again, we have provided some examples on pages 8 and 9. They simply don't make sense in terms of the scarcity of dollars that we have available in the Federal budget.

I use one example. Erie County got a UDAG in order to expand Abel's Bagels production—32,000 bagels a day to 64,000 bagels.

There is nothing wrong with bagel production. The point is there is a lot wrong with trying to spend Federal dollars that we don't have in order to encourage that kind of investment.

Similarly, with the housing UDAG's, the third component of where the money has gone. Again, that is a small fraction of total UDAG money, less than 20 percent. A lot of it has gone to high-rise and, in many cases, luxury housing that we simply can't justify or defend in light of the budget that we are in.

On the top of A10, I have given an example of a $25 million UDAG for Detroit, developing a hotel and retail facility along with apartments and a hotel. It features a 77-boat marina, a yacht club, an indoor swimming pool, roof-topped tennis courts, a private health club, and valet parking. The rents are $1,500 a month. Clearly, that isn't low-income housing, but that is the kind of projects that you typically find.

So if you look at where the dollars are going, then look at the national issue involved, of reducing this $200 billion deficit that is devastating the economy, or will in the future, versus these marginal investments, there is clearly not a good case to be made for continuing.

Now, the argument has been made, though, that the central cities, unlike the national economy, need this extra help. I simply point out to the committee that on page A12 of my testimony we have given you some numbers which I think defeat that argument as well.

For the entire period that UDAG has been in existence, from 1978 to November 1984, we provide in the third column the total amount of private job growth in each one of these urban areas; in the fifth column we provide the number of UDAG jobs that have actually been supplied as a result of the projects that have been announced and the money that has been obligated; and in the final

column you can see that even in these areas for which UDAG was intended the impact on job growth for that 7-year period is only a few percentage points, not a large difference.

Mr. Chairman, there are other arguments to be made, but I have summarized.

UNJUSTIFIED IN FACE OF LARGE DEFICIT

Let me just say that overall in the case of UDAG, if the committee will look at this carefully, basically what you will see a program that might well be justified if we weren't in the hole as deep as we are but certainly can't be justified if we are trying to reduce spending by $300 billion in the next 3 years without raising taxes.

The second issue before the committee is our proposal to eliminate entirely the Rural Housing Program. That will be controversial and difficult. Let me just try to summarize the argument that we developed in presenting this in the budget and that, I believe, the Senate leadership has gone along with because this has been included in the compromise plan.

The basic issue here is: How can we provide assistance to low-income people who need housing support in the cheapest manner possible, given the enormous budget pressures that we are under and the need to make reductions?

I point out in the testimony that since 1980 in the major program before this committee, the HUD Housing Program, we have gradually shifted to a much lower cost program by going away from new construction toward existing units, by going away from home ownership units toward rental units, and by trying to reduce the number of incremental units that we are providing each year, because those just build and compound on all the units that have been provided in the past.

We further point out that this kind of new direction, which is cheaper in budget dollars and still gets the job done, has not been reflected in the Rural Housing Program. In the Rural Housing Program, 100 percent of the money for the actual mortgages is still originated by the Federal Government. That is 100-percent outlay—72 percent of the units are for builder-developer subsidies. That is a lot more expensive than rental assistance under vouchers or section 8's.

Now, 70 percent of the rural housing units are still home ownership units, and we have learned that you can't help those with the greatest need, those at the poverty line or below, with home ownership subsidies because even if you subsidize them down to 1 percent most people below the poverty line can't qualify.

If you would look at the color chart on page B3, I think this indicates the dilemma which we are in and why we now need to reform and consolidate the two programs in order to help the most people possible with the minimum dollars.

Basically, what this chart shows, the three frames here in blue indicate how much we have cut the program in terms of new commitments and promises since 1980. This is Farmers Home Administration and HUD combined.

You see in the upper left-hand corner the annual funding level in budgeted amount. That is the long-term commitment. That has

been cut by 51 percent. The number of additional units to be funded that go into the inventory in the future has been cut by 50 percent over the last 5 years. The amount of new construction units between the two programs has been cut by 68 percent.

But after all of that reduction in the size of the annual program, the irony is shown in the bottom right-hand panel. Outlays will actually get spent and add to the deficit of housing programs each year. Outlays have actually increased by 71 percent, almost $6 billion per year.

This indicates the dilemma we are in, and why. If we are going to save any money, we are going to have to go to a new basis for the Rural Housing Program.

I think it should be recognized that since most of the units are HUD units, the number of people that we are helping is increasing dramatically every year as we add additional units to the inventory. It is on page B4, where you can see that pretty dramatically. Over the last 25 years, the number of units in subsidized housing has gone from 400,000 to over 5.4 million.

The number of people served each year as a result of the inventory that we are building up has increased tenfold, from 1 million or so low-income Americans to 15.5 million at the present time. The key thing is that if we change the funding mechanism and consolidate the two programs, none of this help that is being provided today will be diminished by one unit, by $1, by one person who is getting assistance. It will simply reduce the outlay costs over the next 3 years, will reduce the longrun commitment, and will reduce the growth of the inventory only slightly.

This reduction is shown on page B6 in terms of the outlay savings for the two programs combined. As you can see at the top of this chart, there are nearly $14 billion in outlays built in for 1986, and $44 billion over the next 3 years. If we eliminate the Rural Housing Program and shift our efforts to meet the needs of the rural areas through an expanded HUD-type program, we would save $8.7 billion in outlays.

Of course, the key question is, well, why do we have a new construction program in rural areas and a rental voucher, income supplement-oriented program under HUD that this committee has agreed to over the last 5 years?

The answer is that it has been contended in the past that the rural housing problem is different, and therefore, you need a new construction and a loan origination program to take care of various market imperfections and deficiencies.

I have tried to answer that in the remainder of this section of the testimony. I indicate that those arguments as to why we need an old-style program for the rural areas in the Farmers Home Administration, as opposed to the cheaper, lower outlay programs that we have in HUD for the urban areas, arguments, by the way, which have also been made to continue the old-style program in the urban areas, simply don't hold up.

Now, the cost savings is clear, unequivocal, and dramatic if you go to a HUD style voucher or section 8 program.

On page B8, I have just tried to give you some indication of the longrun costs per unit—or per family helped—that we can avoid as a result of going to what is now the mainline program in HUD. If

you look at that table, you can see that over 30 years the present value of the subsidy provided either through a HUD voucher or a section 8 existing contract is $19,000. By contrast, to provide similar housing for 30 years with new construction rental units under existing Farmers Home Administration programs is $60,000, or three times as much. To provide one unit over 30 years through the Farmers Home Administration home ownership program on a present-value-subsidy basis is $50,000 to $53,000, depending whether you subsidize down to 3 percent or 1 percent, 2½ times as much.

So from the point of view of the real cost to the taxpayers over time, the plan that is proposed in the deficit reduction plan and in our budget will reduce the cost of helping rural families by one-third to one-half by going with HUD rental assistance.

INEFFICIENT CONSTRUCTION SUBSIDIES

Why should we do that? In the first place, the construction subsidies are very inefficient. If you look at page B9, it is pointed out that at least on the rental side, nationwide, 67 percent of the rental new construction units in the Farmers Home Administration are done through limited partnership tax shelters. In some States like California, 94 percent of all new rental construction units are tax shelters.

At the bottom of the page, we have given some indication of why people like these tax shelters so well. A typical project is displayed here:

Six units of rental housing for a low-income project, costs of $211,000. Farmers Home put up $201,000 on a 95-percent loan. The investors would put up slightly under $15,000—5 percent for up-front equity and a 2-percent set-aside for operating.

Under existing tax law, within 17 months—and I stress that, 17 months—against an asset that has a useful life and mortgage of 50 years, the investors had recovered all of their investment and then a few dollars more. At the end of 5 years they had recovered $42,000 in tax savings, with the marginal rates that we have assumed here, on an investment of less than $15,000.

So there are probably those here today who want to keep the Rental Construction Program going in rural areas, but that is simply to keep the tax shelter and these kinds of fabulous returns going, not to help low-income people.

We can do it in a cheaper way, as I have just indicated.

Second, there is the question as to whether we need to help with home ownership assistance. I think it can be argued if you want to help people below poverty, you can't do it with home ownership assistance.

On page B11 of this testimony, we have indicated the present minimum qualifying income levels in various States. These levels are based upon the Farmers Home Home Ownership Program, assuming that we subsidize down to the lowest permissible level, 1-percent interest on the mortgage over 35 years. You can see that in every State, to qualify for the assistance you've got to be above the poverty line, and the maximum qualifying level, in some cases, is one and a half or two times the poverty line level.

Now, it is well and good to try to help the people in this income category, but when you remember that there are millions who are at the poverty line or below who aren't reached and can't be reached by these programs, then you realize that we've got a pretty upside down set of priorities. Yet, we continue to put $3 billion a year into rural housing to help those above the poverty line. By putting funds into new construction home ownership units, we do nothing for those in poverty because, by definition, we can't reach those families with this program.

Third, at the beginning of page B12, I point out that an increasing problem of delinquencies and defaults is going to cost enormous amounts of money over time, simply because when you try to help people at the margin of the poverty line with home ownership subsidies, it doesn't work. The way to help them is to do what we're already doing successfully. That is, give them income to rent units that are available in the market.

At HUD, as you can see from these tables, the ultimate loss rate appears to be 6 percent or more. The current delinquency rate for the Farmers Home lending programs for home ownership and rental housing, is currently 15 percent, or many times more than for comparable programs, both public and private.

Now, it's said that despite these rather unequivocal showings that it's cheaper to help with rental assistance, that the money is being drained away in tax shelters, and that we can't help those with the greatest need with these Farmers Home Administration programs anyway, and we should keep these programs alive because there are not enough financial institutions in rural areas.

Well, on page B13 we point out that 98 percent of the U. S. population lives in a county that has a local savings and loan office. It seems to me that that's a pretty unequivocal demonstration that mortgage financing institutions are available.

We point out also that 90 percent of all loans originated for homeownership by FmHA, are in counties that have S&L's or other mortgage institutions. So, the argument that somehow there are plenty of mortgage institutions in urban areas, but that you can go for hundreds of miles in rural areas without one, just isn't right. And it is not an argument for keeping this expensive program alive.

The second argument is, well, there's not enough housing stock in the rural areas so, therefore, rental assistance, vouchers, or section 8's won't work.

Well, if you look at page B14, you will find that in every region of the country, the vacancy rate in rural areas is much, much higher than it is in urban areas. This committee has already concluded that in the main, we don't need new construction units in urban areas, because there's adequate housing stock available.

Overall, in urban areas, the vacancy rate in 1980 was 6 percent. That's more than is considered to be a comfortable margin. But in the rural areas, it was 10 percent nationally, and in some regions it was 15 percent, even 18 percent in 1980.

So, the housing stock is there and rental assistance will work.

The next argument that is made is, well, the stock may be there in terms of the numbers of units, but the quality is poor. I would

say that's an argument that's 20 or 30 years old and trying to stay alive by repetition.

RURAL HOUSING ON PAR WITH URBAN HOUSING

On page B15, we show you one measure of rural housing quality, not the number of units available, but the quality. The conventional measure of housing quality is indoor plumbing, and, yes, at one time, there was a serious problem. But this table shows as you go from 1940, to 1960, to 1980, that the percentage of rural housing with plumbing has increased to 94 percent from 25 percent. The percentage is almost identical to what we have in urban areas today.

Another way of looking at the housing stock is in terms of severe inadequacy. This is how the people in the business measure defects in units that are considered severely inadequate and, therefore, shouldn't be counted as available.

But, again, if you use the severe inadequacy of physical defects measure, you can see that for all metropolitan areas in 1981, it was less than 1 percent. For the urban areas, it's about 2 percent; not a startling difference and certainly only a very small problem. Even if you look at units occupied by families below 80 percent of the median, severely inadequate units make up a very marginal or small share of the total stock.

So it seems to me that if you go through the arguments in terms of cost per unit, if you recognize that some of the justifications made for keeping this high cost, rural housing construction and mortgage origination program alive cannot be supported, then there's a very good case for consolidating the two programs and going in the direction that this committee has already approved. Through vouchers and section 8 certificates, this approval produces the lowest cost way of helping people at the poverty line or below afford decent housing.

HUD has put over a half a million of its units in the rural areas already over the last 10 years, as is shown in the table on page B17. And, with some hard work in this committee, we can find a way to allocate 100,000 new incremental units a year between rural and urban areas in a balanced and fair way which will meet the needs of the country.

I would only point out, to conclude, by asking you to look at the diagram on page B19 that indicates where we would be in 1990 with the reform proposed in this deficit reduction plan in terms of meeting the needs of low-income Americans who have housing income deficiencies.

I think this is a pretty dramatic and favorable story and it puts to the lie any arguments that canceling this $3 billion obsolete, high-cost, rural program is going to cause the low-income housing needs in rural areas not to be served.

If you look at 1981, we were only serving about 44 percent of low-income families that had housing needs because they were paying more than 50 percent of their income in housing or because they were living in severely inadequate units.

By contrast, 56 percent or 3,270,000 families weren't being served. By 1984, as a result of units coming out of the pipeline into

service, the proportion served had gone up to 56 percent and 2,800,000 families remained to be served.

With the program we have proposed in this deficit reduction plan, a compromise at 100,000 incremental units a year by 1990, between what's in the pipeline now and the new units that will be reserved or authorized, we will be serving 84 percent of the need, more than 6 million households, and more than 18 million people. We would still have some left to serve, 16 percent of the total need, but in a very small number of years that could be reduced to the diminishing point.

So, I think these are the arguments on rural housing and I hope the committee will consider them carefully.

The next section of my testimony covers the mass transit operating assistance. I will refer the committee to my prepared testimony—it explains the proposal—but not go over the details because there are a lot of arguments in here that you've heard before. But I just want to clarify what is being proposed and make one or two brief points.

What is being proposed can be clearly seen on page C1. It indicates the changes by program component in mass transit assistance. We are proposing three things.

MASS TRANSIT OPERATING SUBSIDIES

No. 1, that operating subsidies be phased out slowly over 5 years so that the $875 million that we're spending today can be taken down in equal increments till the program is eliminated in 1990. This gives the localities who should pay for this in the first place, plenty of time to adjust.

On average, mass transit operating subsidies account for less than 10 percent of the operating costs or the revenue needed to fund these systems. And so therefore, the phaseout is a 2-percent additional revenue requirement either from the fare box or State and local support in the future.

If you look at some of the results of studies we provide in the testimony as to where the operating subsidies have gone for the last 10 years since we started the program in 1975, you will see that an overwhelming amount of the operating subsidy has gone to reducing fare box revenue, in real terms, below the level that it was in 1975. Nobody ever intended that.

The purpose was to keep it from going up in real terms. But it's actually gone down. Much of the remainder has gone to wage increases well in excess of the cost of living, so there have been huge real income gains for transit workers that aren't justified. Also, an amount over $1 billion has been lost in reduced productivity, as indicated by the various measures of transit system productivity.

So, with a 5-year phaseout and a 2-percent reduction relative to total revenues or costs over a 5-year period, this can clearly be done, especially if local transit systems after these huge wage increases—real wage increases for the last 10 years—will hold down wages as we're doing at the Federal level.

The second change is after 3 years we'll cap capital grant at $1.7 billion per year and fund most of it—$1.1 billion of it—out of the penny gas tax that is allocated to mass transit capital investment.

Now, that is a reduction compared to the $2.7 billion that we are now making available. But over $400 million of that $2.7 billion is for new starts, major new fixed rail systems and the decision—the argument—here, is that it's foolish for us, as Federal taxpayers who are bankrupt, to get into the business of trying to build new fixed rail systems at the local level.

Let me just give you an example: The 17-mile system in Los Angeles will cost $3 billion and more at minimum. The cost per mile would be $180 million per mile—if you can imagine that staggering number—and if you add that system to all the other new starts that are in the pipeline, we would have to come up with $19 billion at the Federal level just to finish our share. We can't do that. We shouldn't get started; we shouldn't be out there making promises that give you $100 million this year but when it comes time for the $500 or $600 or $700 million construction costs, when it goes into full swing, the money will be there because it won't.

If you set aside the new starts program and kill it—which this committee should because it's economically disastrous—you can have $1.7 billion left to fund the existing modernization of fixed rail and bus replacement. That is somewhat of a cutback below the current level but consider that we've already bought over 50,000 buses over the last 15 or 20 years and that there are huge margins of spare equipment, buses and rolling stock available in almost all local systems.

ELIMINATE EXIMBANK DIRECT LOAN PROGRAM

If you look at the arguments carefully, $1.7 billion without new starts is a level that we can live with.

Now, the last program that I want to touch on before completing, Mr. Chairman, is the Export-Import Bank. That is, obviously, also another major controversial proposal. It occurs near the end of the testimony on page F1. Basically there are a number of arguments I would make as to why the Eximbank Direct Loan Program ought to be eliminated entirely. It would save $3.5 billion in outlays over the next 3 years.

However, the single and most powerful reason why the Export-Import Direct Loan Program must be eliminated is that in an era of one-quarter trillion dollars annual Federal budget deficits, the Federal Government simply cannot afford to maintain a subsidized credit boutique for a handful of multibillion dollar U.S. companies.

And as I have indicated in this chart here, the total direct loan money that has gone out over the last 5 years is some $15.5 billion. Almost half of it has gone to five companies that are listed in this table including $4.3 billion to the Boeing Aircraft Co. alone, nearly 30 percent of the total and another $2 billion or so to McDonnell Douglas, Westinghouse, General Electric, Lockheed, and so forth.

The point is, nearly half of the $15 billion we've put out has gone to five companies. If you look at the export problem overall though, you will see that the Export-Import Bank really doesn't address the export financing needs of the overwhelming bulk of U.S. companies that export into tough high-dollar world markets that we're in today.

On the bottom of page F2, for instance, we show there are some 28,000 companies that are out there competing, standing on their own hind legs, arranging for whatever financing and whatever competitive terms that they can find in the private market, versus only 1,400 that rely on the Eximbank. Most of the financing goes to the five companies that I've mentioned above. So, clearly, the overwhelming bulk of U.S. businesses are out there in this tough environment, financing their exports in the market without subsidies.

If we turn to page F3, I make one further point on the subsidy issue. It is justifiable to have subsidies on occasion, whether they're tax subsidies or spending subsidies, if we can identify some overwhelming or important overriding national interest that justifies these subsidies.

But I submit to the committee today, that when we have a quarter trillion-dollar deficit, when we're trying to take massive amounts out of the budget, there is the question of how many times we can overlay overlarge subsidies one on top of the other for selected sectors and selected companies.

In the case of aircraft, power generation equipment, and so forth, we have a system that is generous beyond belief between the tax subsidies that are available for ACRS, the completed contract method of accounting, and other things, and the implicit subsidies that are involved in the Export-Import Bank direct loans.

If you look at the table on page F3, you will see that the five companies over the last 5 years have received a subsidy value that is the present value of the loan differential over the 10 or 15 years of these Eximbank loans of $1.6 billion. That's not the loan value; that's the subsidy value.

From 1982–84, most of the same period, these five companies paid the astounding total in current Federal taxes of $92 million, compared to combined earnings of $13.4 billion on U.S. operations alone, setting aside foreign taxes and foreign earnings. That means that there's an effective tax rate of 0.7 percent on these companies and still, through the Export-Import Bank direct loan, they've received $1.6 billion in present value subsidized financing. Something has to give here. And we would propose that what gives is the direct loan subsidies that are clearly no longer needed. Eximbank's direct loans aren't going to solve the export and trade balance problems that we have today. On page F4, we point out the level of Eximbank financing compared to the level of U.S. exports over the last 5 years. Even in the tough environment we've been in with the high dollar and the increasing foreign competition, the fact is we've exported 1,085 billion dollars' worth of merchandised goods to the rest of the world over that 5-year period. Eximbank financed $15.6 billion of it, or only 1.4 percent.

The trade problem is simply not going to be solved at the subsidized financing level. We're going to have to solve the problem through negotiating away the subsidies that are available in the international market and improving the macroeconomic environment and resolving the adverse impacts from the high dollar.

I would suggest that over the last 4 years, and you can see this on page F5, we have pretty well eliminated most official subsidized financing, at least to the OECD countries.

I think this chart which contrasts arrangement rates and the LIBOR rate in the open market, which is the reference point for new loans that are made to finance anything—exports, or anything else—demonstrates that interest rates have come down dramatically from 1981. LIBOR rates were 16 percent in that high-interest rate environment. They have dropped to 9.6 percent at the present time, a decline of 650 basis points. On the other hand, the minimum loan levels under the arrangement have come up steadily so that by 1985, they are 300 to 400 basis points above where they were in 1981. So, this enormous financing gap has closed and, in many cases, most industrial export items are now, at least for category one or developed countries, pretty close to market rates.

Finally, it is often argued that, "well, let's keep this program going because the Export-Import Bank doesn't cost the Government any money." That, simply is not valid. We originate all these loans. They are direct outlays. That's over $3 billion that we would save in the next 3 years if we eliminated Eximbank's Direct Loan Program. Second, despite all the bookkeeping and balance sheet hocus-pocus that we have heard about regarding the Export-Import Bank over the last 10 years or so, their balance sheet is rapidly eroding, as you can see in the middle of page F5. Even if you count all the free capital that was put on the books of the Export-Import Bank way back in 1946, losses are now several hundred million dollars per year. The Bank's reserves are declining rapidly and dramatically. By the end of this decade, the Bank's balance sheet net worth will be negative.

So, I would conclude by saying that we don't need to keep this Direct Loan Program alive. Instead, let's get the international economic environment fixed, the budget deficit down and high-interest rates down.

At the top of page F7, I provide a clear contrast between the benefit that is provided to an exporter as a result of a small interest rate subsidy to Eximbank direct loans compared to the harm that has resulted from the exchange rate appreciation since 1980.

In other words, the price of the 100 dollars' worth of U.S. exports with the actual dollar exchange rate in 1984 is $100. If we put an Eximbank direct loan on top of that, that reduces the effective price to $89 in the third market which you are trying to sell into. But, if you were selling into that same third market in 1984, at 1980 exchange rates as opposed to ones that actually exist now, the local price would be $47. It's clear that the difference between the current dollar price and the current exchange rate, $100 versus $47, is far more dramatic than the difference between an Eximbank financed loan in the current exchange rate environment and a sale that's made without financing.

We can't possibly close the gap between the first and third columns by starting a Government subsidy program to make up the difference. We've got to get our fiscal house in order and allow the exchange rate to adjust. Then we'll be back in the competitive export business in a way that Eximbank direct lending could never hope to accomplish.

Well, there's a lot of material here, Mr. Chairman. I have taken more time than desirable but these are tough, big changes. They're long overdue. The arguments are strong on both sides. We have

provided in this testimony, I think, the strongest case that can be made for these changes in these six areas. I've tried to summarize for the committee that you can see that by going along with this package, we are accomplishing what we need to do and we will not be causing large harms in the program areas where the savings have to be achieved.

[The complete prepared statement follows:]

TESTIMONY OF THE

HONORABLE DAVID A. STOCKMAN

DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

BEFORE THE SENATE HOUSING SUBCOMMITTEE

APRIL 15, 1985

A) UDAG TERMINATION

B) ASSISTED HOUSING PROGRAM REFORM AND RURAL HOUSING TERMINATION

C) MASS TRANSIT OPERATING SUBSIDY PHASE-OUT AND CAPITAL GRANT CAP

D) GOVERNMENT-SPONSORED CREDIT AGENCY USER FEES

E) HODAG, SECTION 312 TERMINATION, SECTION 108 TERMINATION AND CDBG 10% CUT

F) EXPORT-IMPORT BANK DIRECT LOAN TERMINATION

SENATE/ADMINISTRATION DEFICIT REDUCTION MEASURES WITHIN JURISDICTION OF SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE: SUMMARY OF SAVINGS

	1986	1987	1988	Total
		(in millions)		
UDAG				
1) Budget Authority	$-440	$-457	$-473	$-1,370
2) Outlays	-22	-111	-226	-359
Rural Housing				
3) Budget Authority	-3,437	-3,699	-4,103	-11,239
4) Outlays	-2,044	-3,105	-3,575	-8,724
Mass Transit				
5) Budget Authority	-1,037	-1,708	-2,226	-4,971
6) Outlays	-189	-565	-1,053	-1,807
Government-Sponsored Credit Agencies				
7) Budget Authority	---	---	---	---
8) Outlays	-16	-51	-101	-168
HoDAG and Section 312 Rehabilitation Loans				
9) Budget Authority	-120	-127	-132	-379
10) Outlays	-58	-187	-202	-447
Export-Import Bank Direct Loans				
11) Budget Authority	-3,384	-3,163	-3,149	-9,696
12) Outlays	-393	-1,409	-2,072	-3,874
Total				
13) Budget Authority	$-8,418	$-9,154	$-10,083	$-27,655
14) Outlays	-2,722	-5,428	-7,229	-15,379

A) UDAG TERMINATION

A. URBAN DEVELOPMENT ACTION GRANTS (UDAG)

I. REASONS FOR UDAG TERMINATION: INSUFFICIENT NATIONAL PRIORITY IN CURRENT AUSTERE FISCAL ENVIRONMENT.

- o In the current austere budget environment, all existing discretionary programs must satisfy stringent zero-based budget criteria. UDAG does not meet these tests:

    - o UDAG serves no clear national purpose--55% of UDAG funds have been allocated to local commercial development projects such as hotels, shopping centers, office buildings, parking lots, and recreational facilities. UDAG affects the location, but not the national level of these investments.

    - o In the current context, these purely local gains have to be weighed against the economy-wide harm to trade-competitive manufacturing and agricultural sectors caused by high budget deficits -- to which UDAG spending contributes. It is abundantly clear that national harm from deficit-induced high interest rates and high exchange rates far exceeds the purely local gains from most UDAG projects.

    - o UDAG is not effectively targeted to low-income households:

        - o 61% of UDAG housing units are middle- to upper-income units.

        - o 45% of the UDAG-attributed jobs are in higher paying, higher skill categories.

        - o UDAG is not limited to genuinely distressed areas: 35% of all small cities and 52% of all large cities are technically eligible. Pocket-of-poverty provision potentially adds about 200 more cities, and uncountable other non-distressed cities could use the loophole of applying through eligible cities.

- o National economic trends are improving regional and urban economies far more dramatically than scatter-shot UDAG project grants.

    - o Studies of IRS data indicate that the population drain from the Northeast to the Sun Belt during the mid-70's may have peaked by the decade's end.

- 11 Northeast and Middle Atlantic states, which have received 40% of all UDAGs, experienced an average unemployment rate of 5.1% in November, 1984, compared to a national average of 7.1%. Indeed, these regions were consistently below the national average from 1978-1984.

- New Jersey added 350,000 jobs between 1979-1984, growing at double the national rate. Jobs associated with UDAGs to Atlantic City, Trenton, and Newark were less than 1.2% of total new jobs in those cities over the life of the UDAG program.

o UDAG demand is open-ended, greatly exceeding the current $440 million a year funding level.

- Currently there are over $575 million in pending requests for funding compared to only $192 million available for the remainder of FY 1985.

- Wide-ranging eligibility and project criteria make UDAG a potential bottomless pit of Federal taxpayer-financed competition between localities for subsidized investment and job opportunities.

- UDAG is increasingly involved in explicit job "pirating" conflicts between localities.

o Claims that UDAG leverages large sums of private capital are misleading and largely incorrect.

- Most private dollars flow to projects because of tax advantages or the availability of tax-exempt financing.

- Multifarious subsidies -- from State and local governments and other Federal programs -- obscure which public subsidy actually made the deal work.

- The private to public "leveraging" ratio is not the 5.9/1 claimed by UDAG proponents, but is closer to 3.8/1 if all grants assisting a project such as EDA, FmHA, CDBG, etc., are counted. Moreover, it is even lower if the claimed "private" shares are discounted for the large amount of tax-exempt funds typically involved in a UDAG project. The drain on the Treasury from project-related tax expenditures is enormous.

II. COMPOSITION OF UDAG PROJECTS 1978-1985: 55% COMMERCIAL FACILITIES

SUMMARY OF UDAG PROJECTS ANNOUNCED

1978-1985

Project Type	No. of Projects	Percent All UDAG Projects	UDAG Dollars ($ in thousands)	Percent All UDAG Dollars
Commercial UDAGs...	1,238	44.5%	$2,324,286	54.8%
Industrial UDAGs...	1,061	38.1%	1,259,262	29.7%
Housing UDAGs......	484	17.4%	658,690	15.5%
Total	2,783	100.0%	$4,242,238	100.0%

Source: HUD UDAG Press Releases through March, 1985.

Note: All announced projects, including projects subsequently terminated.

- 88% of commercial UDAGs have gone to hotels, motels, and inns, malls and shopping centers, office buildings, recreation facilities and sales centers, and restaurants.

- From an economic viewpoint, these are all necessary and worthy kinds of investments, responsive to marketplace demands, but there is no conceivable national interest justification for their continued inclusion in a Federal budget that is overspending current revenues by more than $200 billion and generating increasing economic stress and damage as a consequence.

UDAG COMMERCIAL PROJECTS ANNOUNCED

1978-1985

Type of Project	Number of Projects	% of All Commercial UDAGs	UDAG Amount ($ in millions)	% of All Commercial UDAG Dollars
1) Hotels, Motels, Inns, Resorts, and Convention Centers	254	20.5%	$744.8	32.0%
2) Malls and Shopping Centers	223	18.0%	465.1	20.0%
3) Office and Professional Buildings	340	27.5%	690.9	29.7%
4) Recreation Facilities and Sales Centers	62	5.0%	127.9	5.5%
5) Restaurants and Caterers	41	3.3%	26.8	1.2%
6) Subtotal	920	74.3%	$2,055.5	88.4%
7) All Other	318	25.7%	268.8	11.6%
8) Total	1,238	100%	$2,324.3	100.0%

Source: HUD UDAG Press Releases through March, 1985.

- Continued heavy UDAG expenditures on subsidized commercial projects in the services sector do not make sense from a national economic perspective. Since 1978, prodigious unsubsidized investment and job growth have occurred in this sector -- while manufacturing and agriculture have lagged. Given the eroding competitive position of the U.S. in manufacturing and agriculture embodied in these trends, UDAG is actually channeling resources to the wrong sector:

SECTORAL GROWTH IN THE U.S. ECONOMY

1978-1984

	Percent Change 1978-1984	
	Employment Payroll	Output Growth
Sector:		
Manufacturing..................	-2.7%	+11.0%
Agriculture....................	-2.0%	+17.7%
Services (non-government).......	+20.9%	+21.1%

- Random examples of UDAG commercial projects clearly demonstrate that the program is funding social amenities at the cost of reduced investment in other localities, industries, or sectors. Moreover, the alleged private sector investment "leveraged" by UDAG grants often consists of other investments publicly subsidized through IDBs, FmHA, EDA, CDBG, local government investment, etc:

  - South Haven, MI: August 84. The $3.3 million UDAG to South Haven helps finance the construction of a marina, a boatyard, a restaurant, 16 condominiums, and 200 "dockominiums" at the mouth of the Black River. State of Michigan CDBG funds are part of the $8.5 million in other public funds that go to this project. The private investment is $13.8 million.

- Wilmington, DE: December 83. $9.3 million goes to assist in the building of a new office tower for the Chase Manhattan Bank (USA).

- Stowe, VT and Newport, RI: April 85. A $600,000 UDAG to Stowe and a $5.3 million UDAG to Newport will help build more hotel facilities for these two noted upper-class resort cities.

- Scranton, PA: April 83. A non-profit organization, Montage, Inc., benefits from $2.25 million in Federal UDAG funds for building and operating a new ski resort. Total public funds of $5.5 million leverage a private commitment of only $6.2 million.

- Norristown, PA: August 84. Norristown uses the Action Grant and SBA funds to help the Armen Cadillac-Oldsmobile dealership expand.

- Niagara Falls, NY: April 83 and July 84. Lehr's Greenhouse Restaurant serves as the general partner in developing both a hotel and restaurant facility next to the Wintergarden complex and a 20-acre theme park and "water play" park. $12.6 million in total public funds goes to these two projects.

- Battle Creek, MI: July 83. A $10.5 million UDAG assists the Kellogg Company in constructing its new world headquarters by developing parks and parking, demolishing buildings, and realigning streets. It is difficult to believe that Kellogg would leave Battle Creek without the UDAG or that national taxpayers are obligated to subsidize its continued tenure there.

- Johnson City, New York: August 79. UDAG installs a new traffic light and turn lane to facilitate the construction of a new carwash and shopping center. Most local governments find the wherewithal to install traffic lights with local resources.

- Unadilla, GA: November 82. UDAG funds of $422,000 help four local residents construct a "high quality" horse arena.

- Yabucoa, PR: May 84. $1.2 million in Federal dollars go into this resort hotel project. Projects funds include assisting the Swiss Resorts Corporation in anchoring a Spanish galleon off the beach to create a swimming area.

III. UDAG industrial projects are scatter-shot: funding everything from a frozen pizza manufacturer in Afton, Oklahoma, to a rubber puzzle manufacturer in Avon, Maine.

- o With less than $96 million per year spread over 40 major industrial categories from 1978 to the end of 1984, UDAG has had only a minimal impact in the this sector.

- o The following table compares the massive flow of private investment in these industries over the last seven years with the UDAG trimmings arranged by local grantsmen. It is clear that relative to market trends driving the level, location, and flow of investment, UDAG is irrelevant.

UDAG INDUSTRIAL INVESTMENT AS A PERCENT OF PRIVATE INVESTMENT IN COMPARABLE CATEGORIES, 1978-1984

Industrial Category	Cumulative UDAG Investment (1)	Cumulative Category Investment (2)	UDAG Share (1)/(2)
	MILLIONS	BILLIONS	
Agriculture....................	$9.7	$355.1	.0000
Construction, Business Services	27.7	170.3	.0002
Food and Kindred Products......	82.0	52.9	.0016
Tobacco, Apparel, Printing.....	47.4	33.9	.0014
Textiles.......................	20.3	10.1	.0020
Lumber, Furniture, Misc........	48.2	33.9	.0014
Paper..........................	19.4	37.5	.0005
Chemicals, Refining, Plastics..	77.3	232.4	.0003
Stone, Clay, Glass.............	36.6	21.8	.0017
Metals.........................	77.5	63.0	.0012
Machinery......................	108.3	144.8	.0007
Transportation, Warehousing....	62.7	122.7	.0005
All Other......................	52.8	795.2	.0001
Total..................	$669.9	$2,073.7	.0003

Note: Includes only projects with signed grant agreements through October, 1984.

- Often a de minimus UDAG is requested merely to qualify the project to raise the small-issue IDB capital spending threshold from $10 to $20 million. (Federal law allows projects to exceed the statutory ceiling imposed on capital spending for projects using private-issue, tax-exempt financing, if that project receives a UDAG.)

- UDAG often displaces local responsibility for public infrastructure, funding water and sewer lines in support of proposed projects.

- UDAG frequently pirates jobs from other localities:

  - A UDAG to Memphis, Tennessee helps International Harvester consolidate jobs from other plants and enter a new product line that will cost competitor Deere and Company market share and jobs.

  - A UDAG to Wilmington, North Carolina helps American Hoist and Derrick to relocate its Minneapolis plant to a warmer climate.

- Examples of industrial UDAG projects further illustrate UDAG's minimal contribution to bolstering our suffering trade- and high interest rate-impacted industrial base:

  - Tallassee, AL: February, 84. A $1 million UDAG to United Technologies (1984 sales $16.3 billion) seems unnecessary in light of the benefits already reaped by the defense industry in the wake of the nation's defense build up.

  - River Rouge, MI: April 85. Mazda Motor Manufacturing receives a $2.5 million UDAG to help build an auto assembly plant. Japanese auto companies have made enormous profits from the American market: what logic justifies a subsidy to help them determine which U.S. location will be chosen for their off-shore production?

  - York, PA: April 84. A $284,000 grant helps Fox Pool Corporation and Marquis Corporation bring their successful West Coast operation to the East. The partnership will build a facility to manufacture in-ground and portable hydro-therapy spas. UDAG is helping a firm break into new markets to the detriment of firms already serving those markets.

  - Erie County, NY: July 82. The UDAG of $653,000 helps Abel's Bagels, a subsidiary of Lender's Bagels, to expand production from 32,000 bagels a day to 64,000. Tax-exempt bonds raise the private financing. Most firms expand to meet growing demand without public funds.

- Newark, NJ: January 82. A $915,000 UDAG allows Toys-R-Us to raise $12 million, partially through tax-exempt bonds, in order that this highly successful firm can build a new warehouse to service retail stores in the New Jersey, New York, and Connecticut area. With total sales of $1.6 billion last year, Toy-R-Us demonstrates that its size is such that it would have had to build distribution facilities to service its many stores anyway. The UDAG grant simply uses money to help them to choose where.

- Chelsea, MA: May 80. The city uses its $962 thousand grant to assist Anheiser-Busch in building a new warehouse and distribution center. The beer company will repay $449,000 at 3% over thirty years and make payments in lieu of taxes to the city.

- Afton, OK: November 84. Pizza Enterprises uses the UDAG to purchase new equipment for their new frozen pizza processing plant. The SBA 503 program and the Oklahoma Industrial Finance Authority also contribute to the project.

- Somerville, MA: July 82. The $600,000 Action Grant to Somerville assists in the expansion of the Ames Safety Envelope Company which specializes in forms used by the Veteran's Administration and the Department of Defense. The HUD press release argues that the Action grant was necessary to make sure that the "growth syndrome" does not get Ames into financial trouble.

IV. HOUSING UDAGS

- Only 39% of 97,610 UDAG-supported units are dedicated to low- and moderate-income persons.

- 51% of the UDAG units will be for the new construction of housing at a cost of $58,414 per unit. Other bona fide HUD housing programs are income-tested and cheaper because they rely mostly on existing stock.

- Housing UDAGs will often go to high vacancy rate cities -- like St. Louis, which had a vacancy rate of 11.8% in 1980 and yet has contracted to build 1,119 units since then. The national median vacancy rate in 1980 was 7.3%.

A 9

- Examples of housing UDAGs include:

  - Detroit, MI: July 80. $25.2 million goes to develop a hotel and retail facility along with the Riverfront apartment towers. The housing project features a 77-boat marina and yacht club, an indoor swimming pool, rooftop tennis courts, a private health club, and valet parking. Rents reach $1,500 a month. In 1980, Detroit had a vacancy rate of 8.0% which has since climbed to 9.39%.

  - Chicago, IL: September, 83. The River City Phase I development receives a $3.1 million UDAG to develop an FHA Section 220 project with 446 rental units, 210,000 square feet of commercial space, and a marina on the Chicago River. GNMA provides permanent financing. Despite the public assistance, none of the units are set aside for low- and moderate-income people.

  - Louisville, KY: October, 84. Limited partnership constructs 92 rental units on vacant urban renewal land using revenue bonds, a purchase money mortgage from the city, and equity. The project includes a swimming pool and conversion of a vacant fire station into a clubhouse for the tenants. $1 million dollar UDAG provides for 62 low-mod units.

  - Portsmouth, VA: April 78. A $2.9 million UDAG and $1.5 million from the city "leverages" $6.1 million for 300 units of upper-income housing. The ratio of private to public dollars is considerably lower than the 2.5/1 standard set by HUD. The HUD press release noted that the project was important to Portsmouth because the city "has been losing its affluent residents to adjoining suburbs."

  - Richmond, CA: July 80. 160 acres of publicly-owned waterfront land is developed using this UDAG of $7.4 million for streets, lighting, and open spaces. The developer leases the land from the city and commits to build 3,500 housing units, 400 hotel rooms, 200,000 square feet of commercial space, and a 1,500-berth marina over a 12-year period. The city recaptures the UDAG funds by placing a special transfer tax on the housing units included in the project. It appears that the tax will somewhat offset the UDAG subsidy that supposedly helps make units more affordable.

V. URBAN ECONOMIC RECOVERY DWARFS UDAG IMPACT

- At its inception, UDAG was a program for the Northeast and this has become even more pronounced in recent funding rounds:
  - Since January, 1984, Northeast and Middle Atlantic states have received 46% of all grants. In the February 1985 round, 71% of the UDAG funds went to this region.
- Yet, the Northeast/Middle-Atlantic region is not the most distressed region, and some indicators point to a reversal of the flight from the Northeast to the Sunbelt that caused UDAG to be conceived:
  - Northeast net migration peaked at 344,000 in 1978-1979 and has declined to 147,000 in 1982-1983.
  - Massachusetts, Connecticut, and New York had civilian unemployment rates in November, 1985, of 3.4%, 4.4% and 6.7% respectively compared to the national average of 7.1%.
- The following table clearly illustrates the minimum impact UDAG has on employment growth in urban areas relative to the larger trends that shape the economy. Even in distressed areas that have been major UDAG recipients, the UDAG contribution to new job growth has been minimal:
  - In Miami, Florida, for example, UDAG jobs have represented only .4 percent of the jobs added from 1980 to 1984.

ACTUAL TOTAL EMPLOYMENT COMPARED WITH UDAG "CREATED" JOBS

1980-1984

	Civilian Employment Mar 78	Civilian Employment Nov 84	Change 1978-1984	Announced UDAG Jobs 1978-1984	Created UDAG Jobs 1/	UDAG Jobs as % Total Change
	THOUSANDS					
Birmingham, AL	361	394	33	1.5	0.5	1.6%
San Francisco/Oakland, CA.	1578	1799	221	4.5	1.6	0.7%
Hartford, CT	351	407	56	2.3	0.8	1.4%
Wilmington, DE	235	270	35	3.9	1.4	3.9%
Miami, FL	665	875	210	2.3	0.8	0.4%
Atlanta, GA	902	1180	278	3.8	1.3	0.5%
Chicago, IL	3324	3492	168	17.3	6.1	3.6%
Des Moines, IA	181	185	4	1.1	0.4	9.6%
New Orleans, LA	464	543	79	5.9	2.1	2.6%
Baltimore, MD	1014	1115	101	5.6	2.0	1.9%
Boston, MA	1355	1500	145	8.9	3.1	2.1%
Springfield/Holyoke, MA	272	291	19	3.8	1.3	7.0%
Minneapolis/St. Paul, MN	1020	1244	224	11.1	3.9	1.7%
Atlantic City, NJ	75	128	53	0.8	0.3	0.5%
Trenton, NJ	152	163	11	0.4	0.1	1.3%
Newark, NJ	917	1002	85	3.8	1.3	1.6%
Akron, OH	288	303	15	2.3	0.8	5.4%

1/ HUD Annual Report shows that 35% of announced jobs to date have actually occurred.

Note: Jobs are "gross" jobs. No attempt has been made to net out jobs lost in firms competing with the UDAG recipient.

Note: Job growth is for SMSA.

VI. MUCH OF UDAG'S PRIVATE INVESTMENT LEVERAGING POWER IS A MIRAGE

- Leveraging ratio is actually only 3.8/1 when other direct Federal, State, and local dollars are added to UDAG dollars in the denominator.
- Counting numerous indirect and very lucrative tax subsidies -- historic tax credits, tax-exempt financing, and local tax abatement would lower this ratio even further.
- Further, the program average is jacked up by the high ratios generated by IRB-specials. One such project has a leveraging ratio of 93.5/1.
- "Private" investment also includes public direct loans, and loans that are 80% guaranteed by a public entity.
- Two examples illustrate these points:
  - Ruthven, IA: November, 1984. This nursing home project is a particularly poignant example of overly deep subsidies in projects, the lack of true private investment, and how the highly-touted leveraging ratio obscures this:
    - Project financed by an FmHA loan of $900,000 at 7.5% for 30 years and a UDAG grant of $143,756, $68,828 of which is lent to the developer at 5%. Interest on the UDAG loan is deferred and accrued for the first two years.
    - HUD calculates the leveraging ratio as the discounted present value (at 11.2%) of the two loans divided by the UDAG amount, or 4.9/1.
    - In this case, a $143,756 UDAG has actually "leveraged" two deep subsidy public loans with a subsidy value of over $400,000.
  - Hartford, CT: April 82. This project also illustrates the multiple overlapping subsidies utilized in UDAG projects and what is often a lack of significant, unsubsidized investment. The project was financed with:
    - $9 million UDAG loan with no fixed interest, principal amount due in a balloon payment upon expiration of the loan term.

- $7.9 million from HUD's Section 202 elderly housing program. Section 202 provides a 9.25% loan up front. HUD then effectively pays back the loan to itself with a stream of Section 8 subsidy payments.
- $1.6 million from HUD's Section 8 new construction program.
- $46.4 million from a State of Connecticut Housing Revenue Bond, insured by the Federal Government's FHA 221(d)(4) program.
- Developer agrees to provide equity "as needed."

VII. FREE OR INEXPENSIVE FEDERAL UDAG DOLLARS HAVE ENGENDERED CORPORATE JUNKIES, GRANTSMEN CITIES, AND DEVELOPERS GETTING RICH OFF THE UDAG GAME.

- General Motors has been the direct beneficiary of at least 5 UDAGs totalling $50.3 million -- Hamtramck, Michigan (1981), Flint, Michigan (1983), Ravenna, Ohio (1984), Hicksville, Ohio (1984), and Pontiac, Michigan (1979). In addition, GM participated in a Detroit neighborhood revitalization project with a $3.5 million UDAG and was awarded three other UDAGs totalling $26 million that subsequently fell through. Other GM suppliers and dealers have also been UDAG beneficiaries.
    - The fact is, GM would have made these investments somewhere in the U.S. The UDAG grants simply used money from national taxpayers to induce GM to remain in traditional locations.
- Wang has received at least 4 UDAGs totalling $10.1 million -- Lowell, Massachusetts (1978), Boston, Massachusetts (1981), Holyoke, Massachusetts (1981), and Haverhill, Massachusetts (1983).
- Hilton and Hyatt have benefited on 12 and 6 occasions respectively.
- UDAG has subsidized the rents for at least 9 J.C. Penney's stores.
- Huge developers like Trammell-Crow and the Rouse Company are among the large number of developers that have packaged and received multiple major UDAGs.
- Baltimore, New York, and Chicago have received a total of 176 UDAGs. 20 large cities have gobbled up 44% of the funds.

VIII. SUMMARY

- UDAG fails to meet the stringent tests required by the current Federal budget situation.

  - The program is inadequately targeted to low-income families and severely distressed communities.

  - UDAG funds are broadly distributed, serving no coherent national purpose.

  - UDAG serves only to inject a Federal contribution into the competitions between local political jurisdictions for investment dollars, rewarding those communities that learn to utilize political clout to leverage supplemental Federal dollars for local uses.

B) ASSISTED HOUSING PROGRAM REFORM AND RURAL HOUSING TERMINATION

B. HOUSING PROGRAMS

I. OVERALL RATIONALE FOR DEFICIT REDUCTION PLAN SAVINGS IN ASSISTED HOUSING

- Termination of the rural housing program completes the re-orientation of national assisted housing policy that has evolved since 1980. These new trends include:

  - A shift from new construction units to existing housing stock.

  - A shift from builder/developer directed subsidies to flexible tenant income supplementation via existing Section 8's and vouchers.

  - Downward ratcheting of annual incremental assisted units reflecting the build-up of the cumulative assisted housing inventory, the diminishing queue of unmet housing assistance needs and the rapidly rising level of Federal housing IOU's and annual outlay costs.

  - The recognition that the primary housing deficiency problem is not a physical shortfall of adequate units, insufficient homeownership among the low-income or failure of housing market financial institutions -- all factors which motivated 1960's and 1970's style programs. Rather, the main problem is housing income deficiencies among selective elderly and dependent households -- a problem most efficiently addressed with targeted housing assistance payment mechanisms.

- Unlike the HUD program, the FmHA housing programs have not been reformed to embody these progressive trends:

  - The Federal government still performs 100% of the mortgage finance origination function at an outlay cost of $3.5 billion per year -- despite lack of persuasive evidence that private market institutions are inadequate in rural areas.

  - 72% of the average single family and rental FmHA assisted units over the last four years have involved builder/developer subsidies for new construction housing at unit costs far in excess of comparable HUD existing rental units.

β 1.

- 70% of FmHA assisted units since 1980 have been for homeownership -- despite the fact that homeownership even at a 1% mortgage level is unaffordable for below poverty level households most in need of assistance -- and unaffordable to the Federal government if extended to all higher income households who currently qualify for existing FmHA ownership subsidies.

- The Deficit Reduction Plan will consolidate our national effort to minimize the remaining queue of needy renter households by the early 1990's by creating a single HUD managed program providing a fiscally affordable number of incremental units per year, with a fair allocation between metropolitan and non-metropolitan areas.

II. WHY THE STATUS QUO COMBINATION OF "BUY NOW/PAY NOW" FMHA AND "BUY NOW/PAY LATER" HUD ASSISTED HOUSING PROGRAMS IS NO LONGER AFFORDABLE OR NEEDED IN THE CURRENT FISCAL ENVIRONMENT

- As shown in the following chart, FmHA/HUD funding for incremental assisted units has dropped by 50% since 1980 -- but housing outlays and deficit impact has risen 71%.

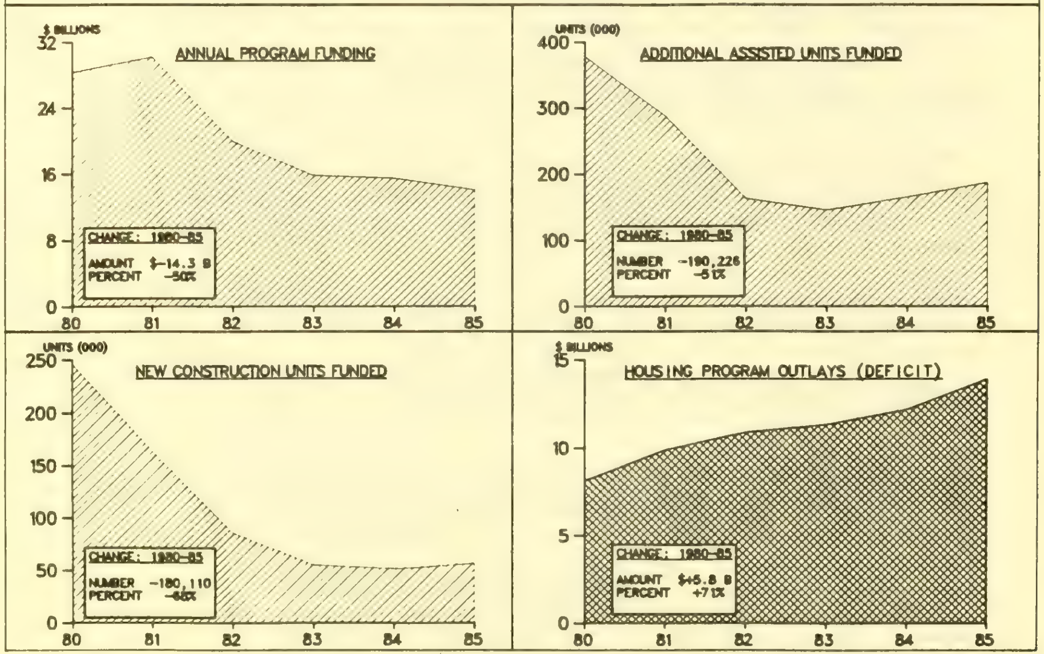
- This unwelcome anomaly -- promising less and spending more -- is due to the fact that Federal assisted housing programs are designed to steadily expand the permanent stock of assisted units with large incremental additions each year. As shown in the second chart, since 1960 the stock of assisted units has increased over 10-fold and the number of assisted low-income persons has risen from 1.2 million to 15.5 million.

- But under the predominant financing technique -- 15 to 35 year annual assistance payment contracts -- the level of unfunded obligations steadily rises as shown in the third chart, leading to rapidly rising current year outlay levels, even if current year incremental unit additions are slowed. As also shown in the third chart, the run-out cost of currently occupied HUD units and those in the pipeline will require outlays of nearly $10 billion per year through 1990 -- even if not a single additional unit were funded after 1985.

- The overall Federal fiscal problem stems from the structural gap between current policy spending levels at 25% of GNP and current law revenues at 19%. Since so much of assisted housing outlays are locked in, the only way to reduce assisted housing spending is to convert all assisted units to the HUD contract method to achieve near term savings on FmHA loan originations, and to reduce the combined level of incremental units to lower long-run obligations compared to current

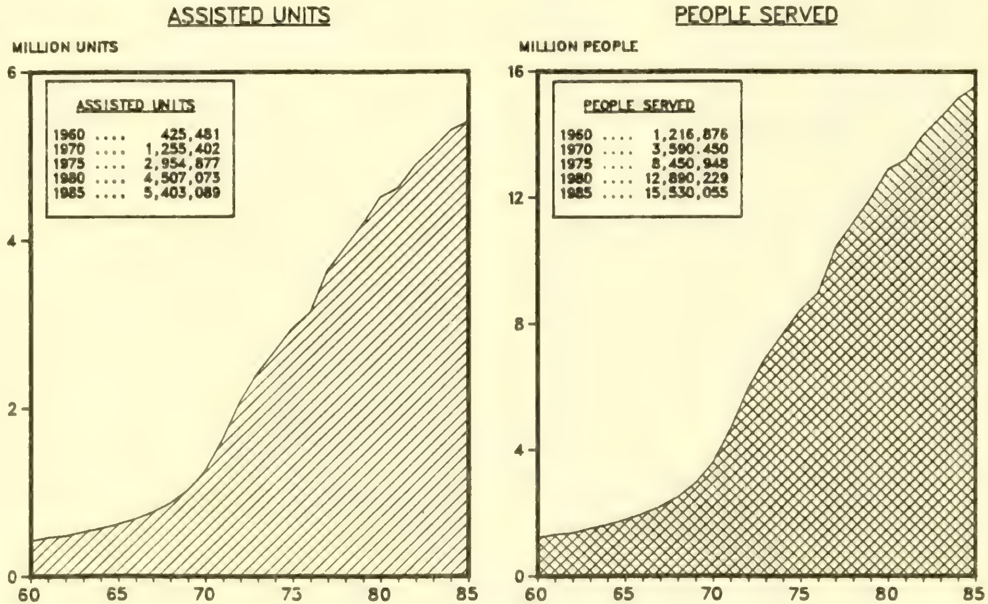
β 2.

THE HOUSING BUDGET DILEMMA: PROGRAM WAY DOWN; OUTLAYS WAY UP

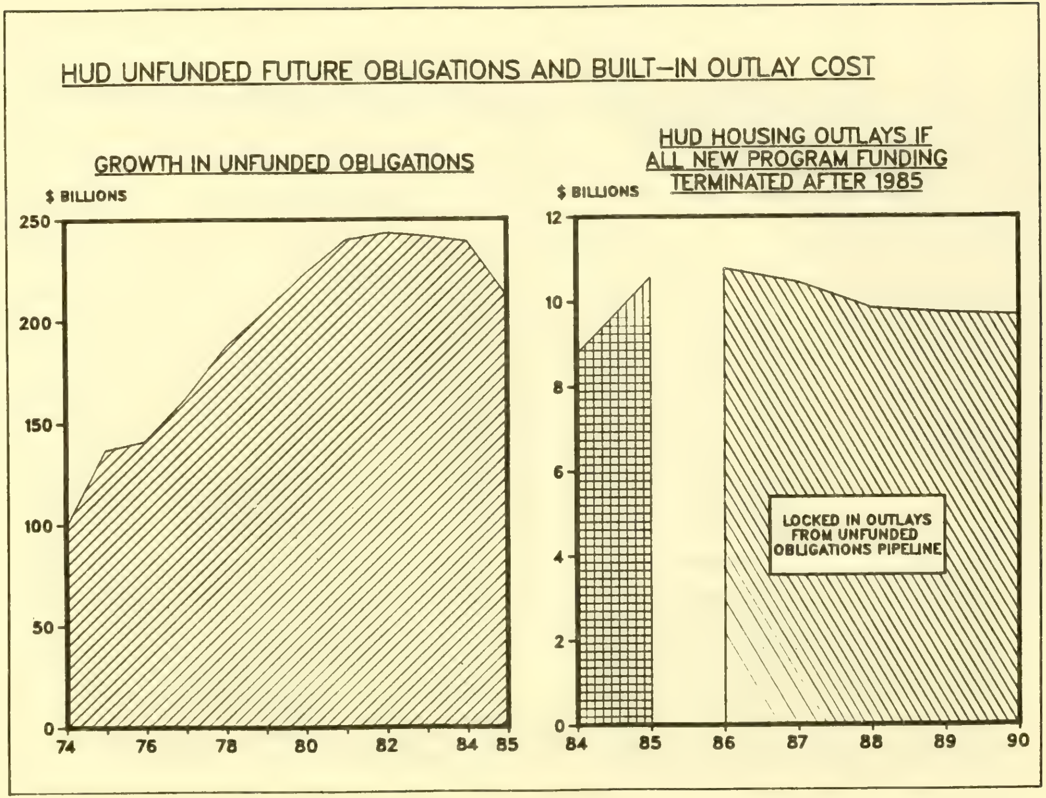


B 3.

GROWTH IN THE ASSISTED HOUSING STOCK LEVEL:
UNITS SUBSIDIZED AND PEOPLE SERVED, 1960–85



B 4.


HUD UNFUNDED FUTURE OBLIGATIONS AND BUILT—IN OUTLAY COST
GROWTH IN UNFUNDED OBLIGATIONS
$ BILLIONS
250
200
150
100
50
0
74
76
78
80
82
84
85
HUD HOUSING OUTLAYS IF ALL NEW PROGRAM FUNDING TERMINATED AFTER 1985
$ BILLIONS
12
10
8
6
4
2
0
84
85
86
87
88
89
90
LOCKED IN OUTLAYS FROM UNFUNDED OBLIGATIONS PIPELINE

5.

policy. This financing shift reduces 1986-88 outlays by $8.72 billion or 20% as shown below. As explained in subsequent sections -- this shift also coincides with more cost-effective and equitable national housing policies.

Impact of Shift to HUD Type Contract Financing
($ in Millions)

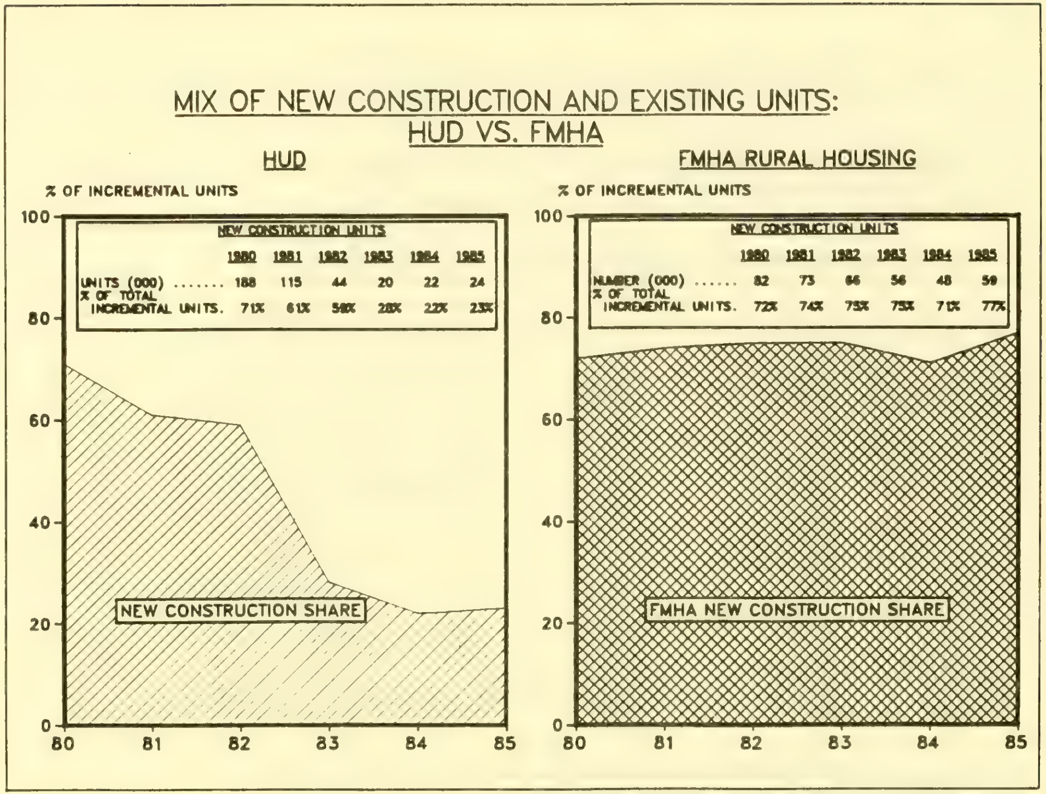
	1986	1987	1988	Total
Baseline Outlays				
HUD..............................	$9,197	$10,122	$11,084	$30,403
FmHA.............................	4,512	4,591	4,994	14,097
Total..........................	$13,709	$14,713	$16,078	$44,500
Savings Due to FmHA Termination				
Outlay savings...................	$-2,044	$-3,105	$-3,575	$-8,724
% of combined baseline..........	-14.9%	-21.1%	-22.2%	-19.6%

III. THE FMHA HOUSING PROGRAM CONTAINS MANY POLICY DEFECTS WHICH MAKE IT INEFFICIENT AND EXPENSIVE

- One of the key deficiencies of the FmHA program is its continuing reliance (unlike HUD) on construction of new units which are up to three times more expensive than existing units (see chart on next page).

  - The present value of the Federal subsidy (exclusive of tax expenditures) for an existing Section 8 or Voucher unit for 30 years of service is about $20,000 -- compared to $50,000 over a similar service period for FmHA new construction ownership units and nearly $61,000 for FmHA new construction rental units.

  - Thus, a reduction of monthly housing costs to affordable levels for low-income families is 2-3 times more expensive to the Federal budget under the FmHA program than the more efficient mechanisms now being used for HUD's programs.



MIX OF NEW CONSTRUCTION AND EXISTING UNITS:
HUD VS. FMHA
HUD
% OF INCREMENTAL UNITS
NEW CONSTRUCTION UNITS
1980 1981 1982 1983 1984 1985
UNITS (000) 188 115 44 20 22 24
% OF TOTAL INCREMENTAL UNITS. 71% 61% 58% 28% 22% 23%
NEW CONSTRUCTION SHARE
100
80
60
40
20
0
80 81 82 83 84 85
FMHA RURAL HOUSING
% OF INCREMENTAL UNITS
NEW CONSTRUCTION UNITS
1980 1981 1982 1983 1984 1985
NUMBER (000) 82 73 66 56 48 59
% OF TOTAL INCREMENTAL UNITS. 72% 74% 75% 75% 71% 77%
FMHA NEW CONSTRUCTION SHARE
100
80
60
40
20
0
80 81 82 83 84 85

7.

Present Value Cost Comparison: HUD Vouchers vs. FmHA Housing

Program	Present Value of 30 Year Service Subsidy	Percent of HUD Certificate Cost
HUD Section 8 Certificate or Equivalent Voucher..........	$19,710	100%
FmHA Programs:		
Section 515 new construction rental units.................	60,566	307
Section 502 homeownership:		
o Interest rate down to 1%...	53,247	270
o Interest rate down to 3%...	50,218	255

Note: A period of 30 years of assistance is assumed for all programs. Section 515 includes direct Federal financing costs plus rental assistance payments. All other factors (discount rate, tenant incomes, inflation) are held constant for all programs.

- o In Addition to Being Expensive, Existing FmHA Builder Subsidy Programs are Inefficient Because Large Federal Tax Subsidies go to Benefit Builders and Investors

  - o Nationally, 67% of FmHA's rental housing units have been constructed under limited profit tax-sheltered programs. In some states, the share is 80 or 90% as shown below:

Limited Profit Tax Shelter Syndicates Construct Most FmHA Rental Housing in Some States

State	Percent of all 515 Units - Limited Profit Tax Shelters
California	94%
Florida	93
Illinois	85
Oregon	92
Washington	81
National Average	67%

- These tax-sheltered enterprises can expect to recoup their entire equity investment in about 17 months after start-up compared to an actual useful life and mortgage period of 50 years.

- The following example illustrates the high returns realized by investors who, over the first five years, recoup about three times their initial investments:

Limited Partnership Tax Shelter Returns on FmHA Rental Housing Projects

Construction cost (at 1985 estimate of $35,294 per unit) for 6 units	$211,764
95% FmHA loan for 50 years at 1%	201,176
Investors equity (5% of project cost plus 2% for general operating account)	14,823
Investor tax savings after 17 months	15,288
Investor tax savings after 5 years	42,257

β 9.

- Within the states accounting for the largest volume of FmHA rental housing construction (i.e., California, Florida, Michigan and Texas), a small number of builders who specialize in FmHA subsidized construction account for a large share of total FmHA supported units:

Examples of Builders Who Specialize in the FmHA Housing Programs

Company	State	Program/Year	$ Volume ($ millions)	% of State Obligations	% of Firm's Total Business w/ FmHA
Maderack	California	502/1984-1985	$12	6.8%.	100%
CBM Group	California	515/1983-1984	15	18.0	100
Sabis	Florida	515/1983-1984	3	8.0	97
Dornet	Michigan	515/1983-1984	17	24.0	80

- The end result of the existing FmHA program is to provide lucrative subsidies to builders and those seeking tax shelters rather than the truly needy.

- Furthermore, FmHA assistance is poorly targeted because FmHA units are predominantly new ownership units -- a discredited and unworkable approach to low-income housing needs.

    - Even with mortgages subsidized down to 1%, the minimum qualifying income for FmHA ownership loans in most states is well above the poverty line ($10,200 in 1984). This means that by its very design, the major FmHA housing program bypasses those with the greatest need in favor of families well up the income spectrum:

FmHA Income Limits in Selected States

State	Minimum Qualifying Level 1/	Maximum Qualifying Level
California	$13,728	$18,000
Maryland	12,707	18,000
Massachusetts	14,097	18,000
Indiana	12,083	18,000
Pennsylvania	12,679	18,000
Alaska	22,719	27,500
Washington	13,898	18,000
Michigan	12,735	18,000

1/ Estimates based on 20% of income to cover cost of principal, interest, taxes and insurance.

- Under existing law, 40% of FmHA units go to families below 50% of the States' median income and 60% go to families between 50 and 80%. But in most states, the three-fifths of units that go to the second tier (those between 50 and 80%) benefit families well above the poverty line.

- Overall, between 1981 and 1984, 77% of FmHA units went to families with incomes above the poverty level:

1982 FmHA Income Ranges for Families Qualifying for 60% of Ownership Units vs. Poverty Level

Region	50 to 80% of Median Income	% of Poverty Level
Northeast	$10,122-$16,194	109-175%
North Central	8,712- 13,939	94-150
South	7,830- 12,527	84-135
West	9,174- 14,678	99-158

Note: 1982 poverty line for a nonfarm family of four was $9,300. Most FmHA assistance is now allocated to nonfarm families.

β 11.

- In addition to being poorly targeted, the FmHA program's tilt toward homeownership has resulted in FmHA ownership default rates that are too high to tolerate.

  - During 1984, FmHA foreclosed on 3,887 properties which represented about 6% of the total 64,728 housing loans originated during FY 1982. On a $40,000 FmHA single family homeownership loan, FmHA can be expected to lose about $3,862 or 9.6% of the loan value.

  - The current delinquency rate of FmHA single family loans is also unacceptably high:

FmHA Rural Housing Delinquency Problems 1/

	Number	Percent
Total borrowers....................	934,498.............	100.0%
Delinquent borrowers...............	143,937.............	15.4
Two Payments or More Delinquent....	76,140.............	8.2

1/ As of 2-28-85.

  - By contrast, the FHA and VA delinquency rates are less than half those of the FmHA. Conventional loan delinquencies are less than one-quarter of those of the FmHA.

  - While many of FmHA's delinquent borrowers have not yet defaulted, many can be expected to during the term of the loan.

IV. THE RURAL HOUSING SITUATION HAS DRAMATICALLY IMPROVED

- Rural Financial Institutions are Adequate

  - One of the earlier justifications for the FmHA program was the perceived inadequacy of rural financial institutions to provide adequate home mortgage funds. If this were ever true, the evidence shows that it certainly is not today.

  - For those who want to become homeowners and can afford it without taxpayer subsidies, rural housing financial institutions are more than adequate. There is no case for a taxpayer subsidized homeownership program that benefits families well above the poverty line based on hypothetical "market imperfections" among rural home mortgage institutions.

  - Counties with Savings and Loan offices, the predominant source of commercial home mortgages:

    - Include 84% of all counties in the U.S.

    - Contain 98% of the population of the U.S., and

    - Contain 90% of the outstanding single-family homeownership loans of the FmHA.

  - This clearly shows that in those counties where FmHA has its largest presence, adequate commercial credit for homeownership is available.

- The Rural Housing Stock is Adequate: New Construction Units are not Needed to Meet the Housing Needs of Low Income Rural Families

  - The proposed housing reform included in the Deficit Reduction Plan provides units through certificates and vouchers designed to help low-income families afford rural units purchasable in the marketplace.

RURAL vs. URBAN HOUSING QUALITY (Housing Containing all Plumbing Facilities)

Region	Rural 1940	Rural 1960	Rural 1980	Urban 1980
New England	52%	77%	97%	98%
Middle Atlantic	47	79	97	98
South Atlantic	18	55	92	99
East South Central	8	39	89	98
West South Central	13	54	94	98
East North Central	25	71	96	98
West North Central	18	62	95	98
Mountain	24	71	94	99
Pacific	56	81	96	99
U.S. Total	25%	57%	94%	98%

- o If a broader measure of housing quality is used, the picture is similar.
- o Since 1975, the amount of severely inadequate rural housing has been declining dramatically.

B15.

- Data on vacancy rates clearly show that the available housing stock in rural areas is more ample than in urban areas where we have already largely completed the transition to assistance for existing rental units.

Rural vs. Urban Vacancy Rates, 1980

Region	Percent Vacancy Rate Urban	Rural	Difference
New England	5.16%	8.30%	3.14%
Middle Atlantic	5.41	8.72	3.31
South Atlantic	8.70	11.52	2.82
East South Central	6.55	9.55	3.00
West South Central	8.74	15.06	6.32
East North Central	5.76	9.77	4.01
West North Central	6.23	11.39	5.16
Mountain	8.73	18.03	9.30
Pacific	6.14	15.07	8.93
U.S. total	6.32%	10.06%	3.74%

- It is argued that new construction is needed despite high rural vacancy rates because the quality of the rural housing stock is poor.

- However, the quality of the rural housing stock has improved dramatically over the years. Using one basic measure of housing quality (plumbing facilities) it is clear that by 1980, the urban/rural gap had closed almost completely:

β 14.

Percent of Occupied Units that are Severely Inadequate 1/

	1975	1977	1981
Percent of all occupied units			
Metro	0.54	0.42	0.34
Rural 2/	3.81	3.15	2.26
Percent of all units occupied by households at or below 80% of median income			
Metro	1.12	0.81	0.73
Rural 2/	6.65	5.55	4.18

1/ A severely inadequate housing unit is defined as having two or more of the following defects:

- o Lacking or sharing some or all plumbing; containing five or more maintenance problems (open holes or cracks in walls/ceiling, peeling paint, broken plaster, etc.); containing four public area deficiencies (broken steps, loose railings, etc.); broken heating equipment; three electrical defects (no working wall outlets, exposed wiring, etc.); inadequate provisions for sewage disposal.

2/ Rural is defined as outside a standard metropolitan statistical area.

16.

o Overall, these data make it clear that the availability and quality of the housing stock is not the real issue; the needs of low-income rural families can be met at a much lower cost to the overburdened Federal budget by targeting housing assistance to the neediest households and by using housing vouchers and certificates to enhance their ability to afford rental units.

V. THERE IS A SOUND BASIS FOR CONSOLIDATING THESE PROGRAMS

o The HUD presence in rural areas is well-established. Between 1975 and 1985, HUD provided over one third of new incremental Federally assisted units in rural areas.

Urban/Rural Allocation of Federal Housing Assistance, 1975-85
(Units in thousands)

	1975	1977	1978	1980	1981	1982	1983	1984	1985	1975-85 Total
Rural										
HUD..................	37	89	75	61	45	19	16	24	25	582
FmHA................	115	133	126	113	99	89	75	68	77	1,152
Total 1/...........	152	210	191	167	135	107	90	91	101	1,686
Urban										
HUD................	118	283	226	204	144	56	56	75	79	1,821
Total.............	118	283	226	204	144	56	56	75	79	1,821
Memo: HUD % of non-urban	24%	42%	39%	37%	34%	17%	17%	26%	25%	35%

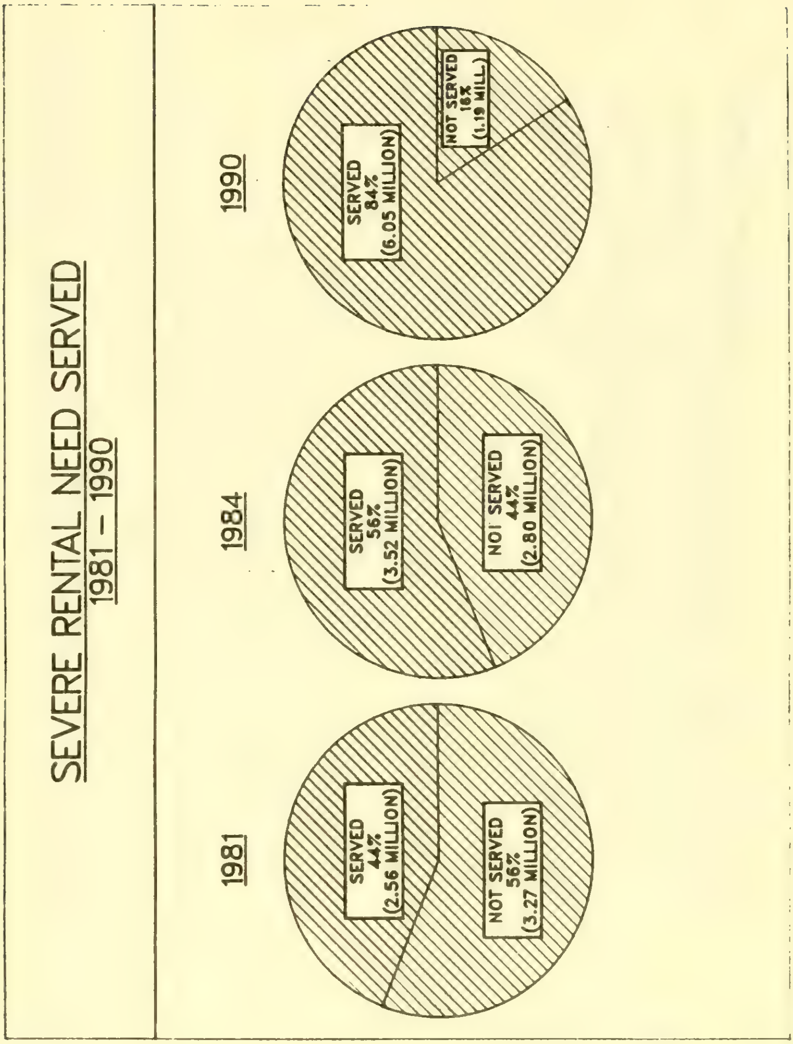
1/ Does not add because of adjustment for FmHA units which are also assisted by HUD Section 8.

o The Deficit Reduction Plan would continue HUD's 100,000 incremental unit program in 1986. In exchange for terminating the FmHA housing programs, these new units would be split fairly between urban and rural areas based upon need and past levels of Federal assistance.

o This will assure that the needs of rural families will be met as FmHA assistance is terminated.

VI. REMAINING NEED AND STOCK GROWTH AND COST

- As the following diagram illustrates, significant progress is being made towards the need for Federal housing assistance with affordable levels of new program commitments.
  - In 1981, 56% of those families most in need of housing assistance (3.3 million households) were not benefitting from Federal rental housing assistance programs.
  - Between 1982 and 1984, nearly 400,000 of these families began receiving assistance as a result of new HUD and FmHA units becoming available. Another 287,000 families will begin receiving assistance as already existing commitments become available for occupancy.
  - If growth in need and turnover of units is taken into account, together with a new annual incremental program of 100,000 new units, by 1990, only 16% of needy families (1.19 million households) will remain without assistance.
  - Thus, further progress will continue to be made after consolidation of the FmHA and HUD programs.


SEVERE RENTAL NEED SERVED
1981 – 1990
1981
SERVED 44% (2.56 MILLION)
NOT SERVED 56% (3.27 MILLION)
1984
SERVED 56% (3.52 MILLION)
NOT SERVED 44% (2.80 MILLION)
1990
SERVED 84% (6.05 MILLION)
NOT SERVED 16% (1.19 MILL.)

19.

VII. CONCLUSION

- The existing FmHA program is a program that clearly has outlived its usefulness.
  - An adequate supply of sound housing now exists in rural areas.
  - Commercial credit for housing is readily available.
  - HUD already has a significant presence in rural areas.
- The FmHA program is ill-suited and poorly targeted to serve the rural poor -- those who most need housing assistance.
  - Homeownership construction - which constitutes 70% of FmHA's program - serves the middle class and not the poor.
  - The biggest beneficiaries of the rental housing construction program are tax-shelter syndicators and construction companies.
- The Deficit Reduction Plan will achieve the following results:
  - Replacement of the inefficient and outmoded FmHA approach to rural housing with a consolidated, more efficient approach based on targeted housing assistance payment mechanisms;
  - Significant reduction in the numbers of needy families not receiving assistance; and
  - Saving of 20% of the 1986-88 baseline outlays - a total saving of $8.7B.

C) MASS TRANSIT OPERATING SUBSIDY PHASE-OUT AND CAPITAL GRANT CAP

C. MASS TRANSPORTATION ASSISTANCE

Major provisions of the Deficit Reduction Plan Affecting Mass Transit Programs

	1986		1987		1988		1989		1990	
	BA	O	BA	O	BA	O	BA	O	BA	O
Mass Transit Operating Subsidies: Phase-Out by 1990										
1) Baseline	875	875	875	875	875	875	875	875	875	875
2) Savings	-175	-117	-350	-264	-525	-439	-700	-614	-875	-789
Mass Transit Capital Grants: Cap at $1.7B by 1988										
3) Baseline	2,749	1,786	2,869	2,359	2,986	2,773	3,106	2,881	3,229	2,971
4) Savings	-503	-50	-972	-199	-1,286	-433	-1,406	-720	-1,529	-1,038
Interstate Transit Transfers: Eliminate General Funding -- Shift to Trust Fund										
5) Baseline	261	363	273	316	284	291	296	281	308	276
6) Savings	-261	-13	-273	-66	-284	-121	-296	-206	-308	-267
DC Metro, Research, & Other: Reduce by 25 percent										
7) Baseline	347	1,043	362	949	378	354	237	359	102	328
8) Savings	-98	-9	-113	-36	-130	-60	+12	-93	+147	-79
Grand Total										
9) Baseline	4,232	4,067	4,379	4,499	4,523	4,293	4,514	4,396	4,514	4,450
10) Savings	-1,037	-189	-1,708	-565	-2,226	-1,053	-2,390	-1,633	-2,565	-2,173

Note: Amounts exclude the annual $52 million Federal interest payment to D.C. Metro.

I. REASONS FOR OPERATING SUBSIDY PHASE-OUT

Operating Subsidies: A $9.3 Billion Addiction With Negative Results

- Operating costs were long-held to be a local responsibility -- but, in response to the 1974 energy crisis, the Federal Government plunged in with an interim transfusion of operating assistance in order to keep transit fares low to entice additional ridership. Senator Williams, a principal sponsor, thought they would be used to "pay for existing inefficiency and poor service." He described them as a "blood transfusion needed before curative surgery can be performed."

- Ten years and $9.3 billion later, operating subsidies have become a debilitating and costly addiction -- the crisis now is too much spending, not too little energy. It's time to get out of operating subsidies because the Federal budget can't afford them and the experiment hasn't worked.

- Operating subsidies have abetted the following unintended outcomes:

  - real fare declines. From 1970 to 1983, real fares declined 22 percent.

  - real wage increases. From 1970 to 1983, real wages increased 28 percent.

  - productivity declines. From 1970 to 1983, vehicle miles per employee declined 19 percent.

Transportation Systems Center Data: 75 Percent of Funds to Unjustified Uses

- According to a 1983 study by the Transportation Systems Center (similar to other recent studies), less than 25 percent of all Federal subsidies directly benefit transit users in terms of providing additional service and covering real fuel and material price increases. Of the $9.3 billion in Federal subsidies from 1975 to 1985, it is estimated that:

  - $2.7 billion was used for excessive labor compensation -- wage increases above the cost of living,

  - $1.9 billion was absorbed by decreases in productivity,

  - $1.3 billion kept fares artifically low, i.e., below pre-1974 real levels, and

  - $1.1 billion provided unneeded service.

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- With $200 billion deficits, we cannot afford to subsidize excessive wages and cheap fares.

- The same study also found that 15 percent -- $1.4 billion -- in Federal operating subsidies replaced State and local assistance which otherwise would have been available. Given the relative fiscal positions of the Federal Government and State and local governments, this fiscal substitution is no longer tenable.

Other Negative Trends

- Worse yet, during this period of Federal largess, $9.3 billion in Federal operating subsidies resulted in the following undesirable consequences (data for 1977-83 period):

    - farebox revenue as a percent of total operating cost declined from 51 percent to 38 percent (in 1965, it covered 92 percent of total operating costs),

    - real cost per vehicle hour increased by 20 percent, and

    - real cost per passenger increased by 10 percent.

- Between 1970 and 1980, work trips by transit declined by 9.3 percent and transit's share of commuter traffic declined 28 percent.

- By comparison, the automobile's share of commuter traffic rose from 77.7 percent to 84.1 percent from 1970 to 1980.

Mass Transit Operating Subsidies are not Primarily a Low-Income Benefit

- The 1977 National Person Transportation Survey of transportation habits within income levels (adjusted for 1985 incomes) indicates that there are clearly more public transportation passengers who are not poor, defined as incomes above $10,000 (about 77%), than who are poor (23%).

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Estimated Use of Public Transportation By 1985 Income Class	
Annual Income	Relative use of Public Transportation
Below $10,000	23%
$10,000 to $20,000	28%
Over $20,000	49%
Total	100%

- Transit subsidies do not address the mobility problems of the poor. This same study found that less than 4 percent of trips by those earning under $16,650 (1985 dollars) are on public transportation. According to the 1980 Census, less than 10 percent of commuters are below the poverty line.

- Rather, transit subsidies primarily benefit the non-poor by subsidizing costly peak-period transit service, suburban, long-haul service, expensive rail service, and flat fares (prevalent in 67 percent of transit properties), all of which overwhelmingly benefit the non-poor commuter.

- Keeping the price of transit low for an entire society in order to keep fares low for a small segment of society, as we have been doing, is expensive and irrational. Providing income support directly to the poor, as we are doing, is much preferable.

Transit is One of Many National Cross-Subsidies Among Localities That Now Must be Eliminated.

- The current Federal budget taxes farmers to subsidize transit users, urbanites to subsidize barge operators, barge operators to subsidize small businessmen, and small businessmen to subsidize farmers.

- Unfortunately, the collective benefits far exceed the collective taxes. If these subsidies are not eliminated, everyone's taxes will eventually go up by much more.

II. IMPACT OF THE OPERATING SUBSIDY PHASE-OUT

Phasing-out operating subsidies over five years will ease the transition.

- On average, Federal operating subsidies make up only 10 percent of transit operating budgets nationwide, requiring only a 2 percent adjustment per year as subsidies are phased out over five years.

- Specific examples of Federal operating subsidies (1983) and their relative importance:

Federal Operating Subsidies For Seven Major Urban Areas (dollars in millions)

Urban Area	Federal Operating Subsidies	Federal Operating Subsidy: Percent of Total Operating Costs
New York/New Jersey	$183	5%
Chicago	70	10%
San Francisco	17	6%
Boston	27	8%
Houston	1	1%
Atlanta	8	8%
Seattle	8	4%

- On average, Federal operating subsidies make up only 9 percent of total operating costs in our 30 largest urban centers.

- Furthermore, there was a cushion of over $380 million in unused operating funds at the beginning of 1985. Similar carryovers are expected for 1986 and will ease the weaning from Federal operating subsidies.

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Available, Unused Operating Funds
Start-of-Year 1985
(dollars in millions)

City Size	Number of Cities	Unused Operating Subsidies Available	Annual Operating Subsidy	Unused Subsidies as a Percentage of Annual Subsidy
Over 1M	30	$96.2	$585.2	16.4%
200K to 1M	85	93.6	173.1	54.1%
Under 200K	248	142.3	111.9	127.2%
Nonurban Areas	n/a	51.1	n/a	n/a
Total	363	$383.2	$870.2	44.0%

- Those transit authorities most dependent on operating subsidies -- those in areas under 200,000 in population -- have $193 million in unused operating funds available -- a level in excess of their entire annual grants.

- The current $380 million carryover balance would cushion 15 percent of the proposed $2.6 billion loss from the operating subsidy phase-out over the next five years.

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Specific Examples of Available Carryovers
(dollars in millions)

City	Carryover Funds Available for Operating Subsidy	Percent of 1985 Allocation
Flint, MI	1.1	64%
Providence, RI	9.6	174%
Youngstown, OH	5.0	238%
Orlando, FL	3.8	188%
Raleigh, NC	2.2	262%
Atlanta, GA	4.5	63%
Dallas-Ft. Worth, TX	7.1	69%
Greenville, SC	2.3	225%
Buffalo, NY	7.2	103%

- All properties will receive another $1.7 billion in operating subsidies from 1986 through 1989 to provide an additional cushion for their transition.

- Given that farebox revenues now comprise only about 38 percent of total transit operating costs, an increase in real fares is not only possible, but highly justifiable.

    - Alternatively, transit authorities could request increases in State/local support, reduce their costs, increase their productivity, or selectively trim their services.

State/local support can be increased.

- On average, State/local support is 44 percent of total operating costs -- or about $3.7 billion. A 20 percent increase over five years -- 4 percent annually -- would cover lost Federal operating subsidies.

- Many States are estimated to have 1986 budget surpluses far larger than the current level of operating subsidies in those States. Since a large fraction of current operating subsidies supports marginal objectives -- higher wages, sub-economic services -- it is appropriate for States to weigh these benefits against other demands on their treasuries.

State Budget Surpluses vs. Operating Subsidies
(dollars in millions)

State	1985 Transit Operating Subsidies	End of 1985 Estimated State Budget Surpluses	Surpluses as a Percent of Operating Subsidies
California	$125	$985	788%
New York	174	102	58%
Pennsylvania	60	188	313%
Washington	12	60	500%
Texas	41	396	966%
Colorado	10	55	550%
Illinois	69	217	314%
Massachusetts	31	144	465%
Michigan	35	427	1,220%

- Dedicated taxes for mass transit are another option for replacing lost Federal funds. In 1983, dedicated aid comprised 17.3 percent of transit revenues; State dedicated aid was only 5.1 percent. Only 97 of the 435 transit systems in 1983 (22 percent) reported having any type of dedicated taxes for transit.

Wages could be frozen (as with Federal employees) or at least increases could be reduced.

- Transit wages comprise about 70 percent of total transit operating costs.

- From 1975 to 1983, labor expenses increased over $3.0 billion, or over 100 percent. If future increases were just half the excessive rates of the last few years, it is estimated $190 million per year in operating costs could be avoided, totalling $950 million over five years.

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- In the District of Columbia, the average transit employee costs nearly $40,000 per year (wages and benefits). In May, these wages will increase by 6.5 percent at a time when area inflation is running only 3 to 4 percent and a pay freeze is proposed for Federal employees.

- In New York, some MTA bus drivers and brakemen have earned over $60,000 per year.

Service could be restructured with minimal adverse transit impact and with significant savings.

- Excessive and underutilized service is prevalent throughout much of the transit industry. Operating costs could be reduced if selected routes were eliminated or service frequency reduced.

  - Wilkes-Barre has indicated that it would reduce or eliminate service at night-time and to outlying areas to cope with funding reductions. This would probably be sensible, even if funding reductions were not being considered.

- According to a variety of studies, contracting out or allowing private carriers to assume some routes has also been shown to save public transit authorities anywhere from 25 to 50 percent.

III. REASONS FOR CAPITAL SUBSIDY PHASE-DOWN

The Nation Cannot Afford to Build Fixed-Rail Systems with 75 Percent Federal Subsidies.

- New systems are too expensive in the aggregate. There are now over 70 projects under construction or under consideration with a total potential Federal liability exceeding $19 billion.

- New systems are individually too expensive. The proposed Los Angeles system would cost over $180 million per mile -- the most expensive system in history.

- New systems are often unwise. A proposed rail system in St. Louis is projected to reduce transit ridership compared to other lower cost transit alternatives.

- New systems are sometimes poorly planned. Ridership on the new Miami elevated rail system is so low, it seems destined for failure. It would have been cheaper to buy each current rider a new car every five years for 50 years.

- Transit services have not proved a viable substitute for door-to-door service. They divert few passengers from the private car and therefore have little impact on traffic levels or air quality: There are no significant external benefits.

  - The great drain on energy sources during subway construction and the fact that few of the subway users have been diverted from private cars indicate that new subways are net energy losers (1977 CBO report).

  - There is no evidence that subways redirect settlement patterns significantly. No one has demonstrated an economic advantage (or even a demand) for recentralization.

    -- A recent Washington Council of Governments study found that employment growth around the subway was about 30 percent below job growth for the region as a whole.

The New-Start Program is a Wasteful Budget Drain that should be Stopped

- While the $422.5 million in budget authority for new starts in 1985 represents only about one-tenth of all UMTA budget authority, it clearly exemplifies the problems with any local program controlled from Washington. Because only a 25 percent local match is required, it is not surprising that there are over $19 billion in potential projects.

- Congressional earmarking of new-start projects has made this situation even worse. Earmarked projects are often chosen without concern for future Federal capital subsidies required and the ability of localities to finance both capital and operating costs.

- The case-by-case congressional earmarkings also encourage inclusion of far more new-start projects than can be funded under existing funding levels. Thus, a "New Start Wedge" has been created, where the initial planning costs are low, but future year costs balloon as these projects proceed into construction phases.

- For example, UMTA statistics suggest that new-start projects in just seven cities would lead to the following funding needs, assuming optimum construction schedules:

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Optimal Funding Needs For Seven New-Start Cities (dollars in billions)					
	Act 1984	Act 1985	Est 1986	Est 1987	Est 1988
Annual Costs	$0.4	$0.4	$1.5	$1.4	$1.3

- o In Los Angeles, just providing funds for the proposed 18.6 mile Wilshire Corridor line on an optimum construction schedule would absorb almost all of the existing allotment of new-start funds for the next five years. Starting with $30 million of Federal new start funds in 1983, costs are now escalating rapidly:

Optimal Funding Needs for Proposed Los Angeles System (dollars in millions)			
	1986	1987	1988
New-Start Funding (frozen)	$423	$423	$423
Demand for Funds for LA Project*	409	451	451
Deficit (-) or Excess (+) of Funding for All Other New Starts	+$14	-$28	-$28

* Numbers comprised as follows: $336M, $378M, and $378M for 1986-1988 respectively (as identified by LA in EIS statement), combined with $73M annually from "shortfall" in 1985 Federal funding.

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- o Congress has ignored these facts and in 1985 continued to earmark funds -- $422.5 million for 12 projects.
  - o But, the total Federal capital cost of these twelve earmarked projects carried to completion is roughly $4.4 billion.

Excessive Capital Subsidies Have Also Promoted an Over-Capitalization in Transit Equipment.

- o A Federal share of 80 percent in the Section 9 transit capital program, often with the State government picking up most of the remaining 20 percent share, has destroyed incentives for local officials to exercise financial prudence in the capital investments they plan. As a result, evidence of overcapitalization is overwhelming.

  There is a wide range of "spares ratios" for buses and rail cars, indicating that some operators clearly have far more vehicles than needed:

  - o Case studies conducted by Peat, Marwick, Mitchell found an "extraordinarily high" average of 36 percent spare vehicle capacity;
  - o Reports for 1982 showed that 30 percent of buses are not needed to provide the scheduled service; and
  - o Detroit has an estimated 60 percent more vehicles than needed, Memphis 127 percent too many, and Philadelphia a 45 percent excess.

IV. IMPACT OF FORMULA ALLOCATION AND CAPITAL PHASE-DOWN

Formula Allocation of Federal Capital Subsidies is More Equitable and Sensible.

- o Since taxes are collected nationally, they should be allocated nationally.
- o Discontinuing discretionary allocations will end unfair allotments of large sums to a few select cities at the expense of most cities.

- Allocating all funds by formula will significantly reduce the huge gap between gas taxes paid by States and received by States. In 1984, 39 States are estimated to have paid more in gas taxes for transit than they got back. Some of the "losers" were:

Texas	Lost $68M	Connecticut ..	Lost $10M
Ohio	Lost $44M	Wisconsin	Lost $7M
North Carolina ..	Lost $35M	Nevada	Lost $6M
Tennessee	Lost $28M	Colorado	Lost $5M
Washington	Lost $22M		

Consolidated $1.7 Billion Formula Program Would Fund Essential Capital Needs.

- Under a consolidated formula program, total capital funding (excepting new starts) would be as follows by 1988:

Capital Funding, 1985 and 1988 (dollars in billions)

	Actual 1985 Appropriations, Excluding New-Starts	1988 Funding per Deficit Reduction Plan
Trust Fund	$0.7	$1.1
General Fund	1.6	0.6
Total	$2.3	$1.7

- This represents about a 25 percent reduction from existing levels. Nonetheless, the $1.7 billion of available funding will finance:
  - All transit rolling stock replacement needs, both bus and rail, equivalent to about $0.7 billion in Federal costs annually.

- Approximately $1.0 billion annually in other transit capital costs -- for bus garages, "old" rail improvements and rehabilitations, and even new starts if localities can finance them through a combination of Federal formula grants and local resources.

- Phasing in the reduction to $1.7 billion by 1988 will ease any transition problems. In 1986, $2.2 billion will be provided (only a 2 percent reduction) and, in 1987, $1.9 billion will be provided (a 17 percent reduction). In addition, there is estimated to be a $0.5 billion carryover of unused capital funds into 1986 which will further ameliorate any transition difficulties.

Alternatives to Public Sector Transit Monopolies -- Proven Methods to Reduce Costs

- Reductions in Federal assistance need not result in service cutbacks or even increased fares. Greater reliance on the private sector through contracting service has clearly demonstrated savings that range between 30 to 50 percent.

  - One study shows that in over 20 locations, the cost to the private operator for fixed route service ranged from 22 percent to 62 percent lower than the cost to public operators.

  - The same study of commuter bus service in six locations across the country showed that private service cost 25 percent to 58 percent less than public operator cost.

  - The study also showed that privately-contracted paratransit systems consistently result in a cost savings of approximately 50 percent when compared to public bus service for comparable service areas.

- The private sector has been particularly effective in providing suburban and smaller community circulation systems, specialized services like those provided for elderly and handicapped persons, commuter rush-hour express services, as well other services during periods of low demand, e.g., weekends, late night.

  - The Dallas Area Rapid Transit Authority (DART) is shifting some services and maintenance to the private sector. To illustrate, DART contracts some commuter service to Trailways, maintenance to the Ryder Corporation, and management to ATE Services, Inc.

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- Westchester County, New York, contracts with 16 separate private bus companies to operate the entire county-wide bus system carrying over 100,000 passengers per day. The public subsidy required in 1982 was $3.7 million. By contrast, in neighboring Nassau County, where the bus system is operated by a public authority, the required subsidy was $8 million, even though the Nassau system carried several million fewer riders than Westchester.

- The Southern California Association of Governments (SCAG) is saving over $5 million per year in subsidies after evaluating publicly-operated bus service on 22 lines and switching operations to private carriers under contract to SCAG.

V. INTERSTATE TRANSFERS

- The Deficit Reduction Plan provides that $725 million from the Highway Trust Fund will be made available to fund both Interstate substitution - highway and transit projects. This makes sense, because the transit projects, which are currently funded from general appropriations, are fundable only as a result of an original intent to fund certain interstate segments from the Highway Trust Fund -- segments which have been withdrawn by States and localities in favor of transit projects.

Interstate Substitute Funding
Current Baseline vs. Deficit Reduction Plan
(dollars in millions)

	1985	1986	1987	1988	1986-1988
Current baseline:					
Highway substitutes	$725	$725	$725	$725	$2,175
Transit substitutes	250	261	273	284	818
Total	$975	$986	$998	$1,009	$2,993
Deficit Reduction Plan:					
Combined substitutes	xxx	$725	$725	$725	$2,175

This Reduction will Result in only a Two-Year Delay in Project Completion.

- All substitution highway and transit projects will be eligible for continued Federal funding. The only change is that the funding to complete these projects is stretched out for one to two years, from 1990 to 1992.

Moreover, There are only Twenty Transit Projects Remaining to be Completed, of which two cities -- Chicago and Baltimore -- account for over 70 percent of the total cost to complete of $0.9 billion.

Interstate Transfers - Transit Projects
Cost to Complete, End of 1985
(dollars in millions)

Interstate Withdrawal Area	Remaining Cost to Complete
Sacramento, CA	$ 16.1
San Francisco, CA	47.5
Bolton, CN	.3
Hartford, CN	15.7
Washington, DC	4.9
Chicago, IL	445.4
Indianapolis, IN	2.2
Waterloo, IA	9.2
Baltimore, MD	217.6
Boston, MA	46.9
Fall River, MA	.8
Duluth, MN	2.3
Trenton, NJ	3.9
Southern New Jersey	2.8
Albany, NY	1.3
New York, NY	5.5
Cleveland, OH	35.6
Portland, OR	5.1
Rhode Island	31.8
Memphis, TN	22.6
Total	$917.5

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VI. OVERALL PERSPECTIVE ON MASS TRANSIT

- Since 1964, the Federal Government has spent $43 billion on transit. During these years:
  - 56,574 buses have been purchased, enough to renew the entire national bus fleet as well as increase it slightly. The average age of the bus fleet has been reduced from about 12 years in 1970 to 9.5 years in 1982. (Prior to Federal subsidies the life of buses was roughly 15 years!)
  - Over 6,300 rail cars and 127 commuter rail diesel locomotives have been purchased. This amounts to about one-half of the Nation's 10,800 rail transit cars, 4,400 commuter rail cars and 300 rail locomotives.
  - Federal funds have supported 290 route miles of new rail transit systems, including Washington METRO, Atlanta MARTA, Baltimore, Buffalo, Miami, Portland, Sacramento, and San Jose.
  - Federal funds have supported 65 route miles of new rail transit extensions in Boston, Chicago, Cleveland and New York.
  - Federal funds have supported 12 miles of commuter rail service extensions in Chicago, New York and Philadelphia and 23 miles of busway in Los Angeles and Pittsburgh.
  - Federal funds have helped modernize the existing rail systems with, among other things, new track, signals, stations, etc.
- The Federal Government has laid a solid foundation for mass transit over the last 20 years and State and local governments are now in a position to manage these greatly improved systems.

- But mass transit has not fulfilled the promise that led to this massive expenditure of tax dollars.

  - People still prefer the auto for intracity travel.

  - The temporary solution to the energy crisis has become an addiction requiring larger doses all the time.

  - This addiction is being paid for by every taxpayer, even though fewer than one in twenty uses public transit. From 1970 to 1980, use of transit decreased from 8.9 percent to 6.4 percent of total work trips taken, while Federal support grew over 2,000 percent.

  - Even the poor -- among the supposed beneficiaries of public transportation -- prefer and use alternative forms of transit. For those who need transit assistance, the problem is one of income, not one of insufficient modes of available transportation. This is similar to the housing problem we faced five years ago, when we learned that direct income support is preferable to supply-side support and preferable to the leakage that results when you try to help the poor by giving money to housing contractors and transit managers.

- The fiscal situation requires fundamental retrenchment through an orderly process.

  - In an era of $200 billion plus deficits -- nearing $1,000 for each man, woman, and child -- it is hard to rationalize a program:

    - -- whose annual subsidy is $400 per passenger (or $600 per commuter) and growing (by comparison, annual food stamp assistance is about $500 per recipient),

    - -- which is very expensive -- more so than many available transportation alternatives, and

    - -- which has been unsuccessful in changing the intracity transportation habits of this nation.

- The Federal role in transit should be limited primarily to allocating and managing formula allocations of funds to capital projects -- primarily supported by trust fund receipts.

D. GOVERNMENT-SPONSORED CREDIT AGENCY USER FEES

I. THE GOVERNMENT SPONSORED CREDIT AGENCIES:

- o Federal National Mortgage Association ("Fannie Mae").
- o Federal Home Loan Mortgage Corporation ("Freddie Mac").
- o Student Loan Marketing Association ("Sallie Mae").
- o Federal Home Loan Banks.
- o Farm Credit System.

ARE SECOND ONLY TO THE U.S. TREASURY IN THEIR APPETITE FOR CREDIT.

- o Their borrowing privileges have facilitated an explosive growth in these agencies' total outstanding obligations that has crowded out private borrowers and driven up the Federal Government's cost of borrowing as well as interest rates in all other sectors of the economy. By 1984, these agencies' obligations:
  - o totaled $339 billion -- over 800 percent growth since 1970;
  - o absorbed nearly $1 out of every $14 raised in the U.S. credit markets that year; and
  - o had grown more than three times as fast as corporate debt since 1970, and almost twice as fast as corporate debt since 1980.

II. IT IS THEIR TIES TO UNCLE SAM THAT ALLOW THESE AGENCIES TO BORROW ON THIS SCALE.

- o These agencies are Congressionally-chartered, privately-owned financial intermediaries which redirect (and lower the cost of) credit for certain privileged sectors. As a result of their Federal sponsorship, these agencies enjoy the following benefits that make credit cheaper and more plentiful for the sectors they serve:

- standby borrowing authority from the U.S. Treasury ranging up to $4 billion;

- exemption from a myriad of Federal securities regulations; and

- debt and pass-through securities treated the same as Treasury debt by the Federal Reserve Bank, commercial banks, and thrifts.

- Because of their Federal sponsorship, these agencies can borrow at rates just slightly above Treasury's borrowing cost (less than 1/5 of 1 percent -- 19 basis points -- on average in 1984). These agencies are not borrowing at near-Treasury rates because of their financial health, but because of perceived implicit assurances that the Federal Government will indemnify their creditors against any loss. Without their Federal ties, bond holders would exact a much higher credit risk premium from FNMA and the Farm Credit Banks:

  - Fannie Mae engages in the business of borrowing short and medium term (3 years and less) and making long-term mortgages. Given this risky business practice, lenders would require much more than a thin $1 billion equity cushion to protect $87 billion of debt.

  - The Farm Credit Banks have combined debt of about $70 billion, but have only $3 to $4 billion in equity. This thin capitalization, combined with declining value of the farm land collateralizing their debt, also raises doubts as to whether the Farm Credit Banks would be able to borrow at these low rates without the Federal ties.

III. BY COMPARISON, AMERICA'S BLUE CHIP CORPORATIONS DO NOT ENJOY SUCH FAVORABLE CREDIT TERMS.

- Well-rated companies like Ford, with $10 billion of capital to protect about $14 billion of creditors must pay more than 3/5 of 1 percent (60 basis points) above the Treasury to borrow.

- The Grace Commission estimated that the Government-sponsored agencies would have to pay 1/2 of 1 percent (50 basis points) to 3 percent (300 basis points) more to borrow if they were completely private companies with no ties to the Government.

IV. THE BUDGET PROPOSES A VERY MODEST STEP WHICH WOULD REDUCE SOME OF THE SUBSIDY PROVIDED TO THESE AGENCIES WHILE TAKING A SIGNIFICANT STEP TOWARD CURTAILING THE STRUCTURAL DEFICIT.

- This Grace Commission recommendation would require government-sponsored credit agencies to pay fees for the benefits of Federal sponsorship. The fee would:

    - begin at 1/100 of 1 percent (1 basis point) on debt issued in 1986;
    - rise by 1 basis point each subsequent year until it reached 5 basis points in 1990; and
    - reduce the deficit by $167 million between 1986-1988.

- This fee, which would reimburse the Government for the agencies' privileges of their Federal sponsorship:

    - amounts to only 1 cent to 5 cents per $100 of debt or pass-through securities -- far less than the borrowing advantage the agencies currently enjoy;
    - is far less than the 1/4 of 1 percent (25 basis points) to 1/2 of 1 percent (50 basis points) that banks charge for standby letters of credit that are similar to Treasury's lending backstop for these agencies;
    - will improve the efficiency of capital markets by eliminating the distortions caused by the present subsidies and stimulate private sector competition; and
    - can be partially absorbed by the agencies. However, if the fees were passed on entirely they would only increase affected farmers' and homeowners' monthly mortgage payments by less than $5 per month, on average.

- Moreover, the housing, agriculture, and education sectors of the economy will be helped more than hurt by this step. They will benefit much more by the salutary effect of the deficit reduction package on the credit markets and interest rates than they will be harmed by the slight increase in the credit agencies' borrowing costs.


GROWTH OF GOVERNMENT–SPONSORED CREDIT
AGENCY OBLIGATIONS VS. CORPORATE BORROWING
CORPORATE BORROWING
$ BILLIONS
PERCENT CHANGE, 1970 – 1984
235.3%
GOVERNMENT–SPONSORED
AGENCY OBLIGATIONS
$ BILLIONS
PERCENT CHANGE, 1970 – 1984
846.6%
SOURCE: SOLOMON BROTHERS
CORPORATE BORROWING: SHORT TERM BUSINESS
BORROWING, CORPORATE AND FOREIGN BONDS

E) HODAG, SECTION 312 TERMINATION, SECTION 108 TERMINATION AND CDBG 10% CUT

E. <u>OTHER HUD PROGRAM TERMINATIONS AND SAVINGS</u>

I. <u>Terminate Housing Development Grants (HoDAG)</u>

- <u>Unnecessary, expensive, and not targeted:</u>
  - As noted earlier, this country's housing problem is affordability, not supply.
  - On a net present value basis over 20 years, <u>costs $59,866 per low- and moderate-income unit</u> compared to Section 8 existing program subsidy cost of $17,209. Furthermore, 75% of the projects used tax-exempt bonds -- deepening the Federal subsidy.
  - 50% of the grants went to cities with vacancy rates above the national average of 5.5% -- levels that demonstrate an adequate supply of housing.

II. <u>Terminate Section 312 direct loan rehabilitation program.</u>

- Long overdue reform -- first proposed for consolidation into the CDBG program when it was created in 1974.
- Subsidy is <u>costly</u> and <u>inflexible</u>:
  - Direct subsidy costs of $9,543 make it the most expensive of four HUD rehabilitation programs. By contrast, the Administration-supported Rental Rehabilitation program provides only $3,727 per unit.
  - The statutory 3% interest rate on Section 312 loans leaves no room to tailor the loans to the borrower's ability to pay.
- Borrowers do not take Federal Government seriously as a lender:
  - Even with the deep subsidy, <u>13% of the total 312 portfolio is delinquent;</u> 21% of the multifamily loans are delinquent.

- Section 312 is a tiny amount of total Federally-supported rehabilitation activity and other preferable alternatives are available:

  - CDBG funds almost $1 billion in housing rehabilitation annually. Section 312 represented less than 8% of the housing rehabilitation activity funded by HUD's Office of Community Planning and Development. This excludes significant activity in other areas of HUD, including $994 million in 1984 FHA-insured home improvement loans.

  - The Administration supports the restart in 1988 of the Rental Rehabilitation Grant program at $150 million per year -- a program that -- unlike Section 312 -- allows local governmental flexibility on structuring the subsidy, encourages the leveraging of private investment, and allows the marketplace to define rent levels.

- Terminating Section 312 saves $196.6 million over the 1986-1988 period.

III. Terminate Section 108 loan guarantees:

- Section 108 is not merely a loan guarantee by HUD, but a Federal direct loan from the FFB. Ending this program will save almost $250 million in outlays from 1986 to 1988.

- Terminating Section 108 is an important part of the across-the-board effort to extract the Federal Government from the local economic development business. Federal involvement in local economic development is insignificant relative to national macroeconomic forces. The purely local benefits of the Section 108 program are far exceeded by the harm that high deficits now impose on the economy.

- Like other Federal taxpayer-sponsored local economic development programs, Section 108 evidences the wile of local grantsmen in wiring together numerous public subsidies:

- o 80% of Section 108 loan guarantees are packaged with other funds. 60% of Section 108 projects involve 2 or more additional subsidy programs.

- o Over 50% of Section 108 loans from the FFB are related to a UDAG deal, 30% of the total go directly into the project with the UDAG.

o Many cities prefer to use Section 108 to avoid having to face the local votes in a referendum on raising debt ceilings through municipal borrowings.

o Few genuinely distressed cities and counties have actually availed themselves of the Section 108 program:

- o Less than 15% of the eligible cities have ever used the program.

- o Of these few, about 25% fail to meet even UDAG's broad distress criteria, including non-needy communities like San Diego, California; Phoenix, Arizona; and Fairfax County, Virginia.

- o Of a total of about $650 million in loan guarantees approved, $158 million, or 25%, has been for one city -- Detroit.

- o Loan guarantee use in 1983 and 1984 was only 27% and 39% of the total loan guarantee limitation made available by the Congress.

IV. Cut CDBG by 10%.

- o States, cities, and counties will be able to absorb this modest cut necessitated by the austere fiscal environment:

  - o State and local governments in toto are in a healthier fiscal condition than the Federal Government and running surpluses.

  - o State and local governments could absorb the shortfall by cutting administrative costs and continuing to improve CDBG funds' productivity through private sector leveraging techniques.

C3

- State and local governments enjoy a relatively stronger fiscal condition. With the exception of recession years (1974-75, 1982), State and local governments have run surpluses since 1972.

- Local government's position is even more dramatic. During the 1960's, local governments consistently ran deficits. Since 1972, local governments have run surpluses (except 1975) totalling $37.2 billion.

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F. ELIMINATE EXPORT-IMPORT BANK DIRECT LOAN PROGRAM

I. EXIM DIRECT LENDING: SUBSIDIZED CREDIT BOUTIQUE FOR 5 COMPANIES

- There is a single powerful reason why the Export-Import Bank direct loan program must be eliminated: in an era of prospective quarter-trillion dollar annual budget deficits, the federal government simply cannot afford to maintain a subsidized credit boutique for a handful of multi-billion dollar U.S. companies.

- Behind all of the elaborate and erudite mythology about Exim's role in promoting our $200 billion export sector and enhancing competitiveness in global capital goods markets stands a starkly different fact: nearly half of all Exim loan funds go to 5 companies to subsidize one facet of the total cost of production -- the financing cost of export sales.

- As shown below, over the last 5 years $6.7 billion of Exim's $15.6 billion in direct loans have gone to Boeing, McDonnell Douglas, General Electric, Westinghouse and Lockheed. The remaining $8.9 billion was split among 1,400 smaller borrowers.

Five Major Recipients of Subsidized Exim Direct Loans
($ millions)

Company	Loans Received 1980-84	% of Total Lending
Boeing..................	$4,318	27.6%
McDonnell Douglas........	718	4.6
Westinghouse.............	656	4.2
General Electric.........	630	4.0
Lockheed.................	368	2.4
Subtotal.............	$6,690	42.8%
All Others	$8,934	57.2%
Total Direct Loans.......	$15,624	100.0%

- This small, select group of five corporations represents less than 0.4% of Exim customers and all Exim customers combined represent less than 5% of the total number of U.S. exporters.

Dependence on Exim Financing

	No. of Exporters	Percent
Exim Customers		
Exim's "best" customers...	5	0.3%
All Others................	1,435	99.7%
Total.................	1,440	100.0%
Total U.S. Exporters		
Exim Customers............	1,440	4.8%
All Others................	28,560	95.2%
Total.................	30,000	100.0%

- There is nothing wrong with subsidies per se if an important national objective is being served. However, there is a limit to the amount and different types of subsidies that should be extended to any favored sectors, including those exporting aircraft, nuclear power plants and heavy equipment. The fact is over the past several years a variety of tax benefit mechanisms, including the 1981 ACRS, have been established to promote economic activity or lower the cost of capital in the sectors occupied by these five companies. This is dramatically evident in the calculation of taxes paid as shown in the table below.

Effective U.S. Tax Rates of the Five Largest Users of Exim Direct Loans
($ millions)

Company	1980-4 Present Value of Exim Loan Subsidies	1982-84 Current U.S. Taxes	1982-84 U.S. Profits *	Effective Tax Rate
Boeing	$1,045	$-29	$1,408	-2.0%
McDonnell Douglas	159	154	1,211	+12.7%
Westinghouse	171	6	1,241	+0.5%
GE (includes GE Credit)	89	-39	8,205	-0.5%
Lockheed	126	0	1,288	0.0%
TOTAL	$1,590	$92	$13,353	+0.7%

* U.S. operating profits less pro rata interest and overhead expense costs and current state tax liability.

- Since the effective corporate tax rate for major corporations was approximately 16%, it is clear that these five corporations with an average effective tax rate of less than 1% have had an enormous economic advantage in addition to Exim lending. We've reached the point where we can't afford both.

II. EXIM DIRECT LOANS FINANCE A DE MINIMUS SHARE OF U.S. EXPORTS

- Over the last 5 years the U.S. exported $1.1 trillion worth of merchandise. Exim lending of $15.6 billion accounted for only 1.4% of this trade.

- In the last two years, as the U.S. trade balance has deteriorated, Exim has financed less than one percent of export sales, and used only 28% of available authority.

Exim Lending and Total U.S. Exports
($ billions)

	1980	1981	1982	1983	1984	Total
Total U.S. exports	$221.0	$234.0	$212.0	$200.0	$218.0	$1,085
Exim Lending	4.4	5.4	3.5	0.8	1.5	15.6
Exim as % of total	2.0%	2.3%	1.7%	0.4%	0.7%	1.4%

III. THE NEED FOR A SUBSIDIZED DIRECT LOAN PROGRAM HAS DIMINISHED

- The OECD estimates that negotiations have reduced official export subsidies by 80% over the past four years.
- The OECD's Arrangement for officially supported credits has established minimum interest rates, maximum maturities, as well as a matrix of interest rates by category of importing countries. These rates apply to all commodities except aircraft and nuclear exports which are covered under separate agreements that are also close to market rates.
- Since 1981, the market cost of funds as measured by LIBOR has come down 645 basis points, while the arrangement floor for category I (industrialized) countries, for example, has been raised by 350 basis points. Since commercial loans are generally fixed at LIBOR plus 200 to 600 basis points for risk, it is obvious that the Arrangement rates are now much nearer, if not in some cases above, market rates. Thus, the degree of subsidized financing has been reduced dramatically.

Arrangements Rates are Now Near Market Rates

	1981	1982	1983	1984	1985 (Est.)
Approximate Arrangement Reference Rates					
Country Category I....................	8.75%	11.25%	12.40%	13.60%	12.25%
Country Category II...................	8.50%	10.70%	10.70%	11.90%	11.20%
Country Category III..................	7.50%	10.00%	9.50%	10.70%	9.85%
Comparative Market Rate					
LIBOR International Rates (1 year).....	16.05%	13.55%	10.06%	12.00%	9.60%

IV. EXIM'S DIRECT LOAN ACCOUNT IS GOING BANKRUPT

- Poor direct lending policies in previous Administrations have placed the Bank at a financial crossroads.

Exim's Deteriorating Financial Condition
($ in millions)

	1983	1984	1985 Est.	1986 Est.
Operating loss.....	$247	$342	$394	$460
Reserves...........	$1,792	$1,450	$1,056	$596

- The Bank projects that losses from 1986 through 1990 will reach $2 billion.

- The weighted average interest rate on the Bank's $17 billion loan portfolio is 8.6%. Its cost of money is 11.5%. This negative interest rate spread guarantees an operating loss for the foreseeable future. Any suggestion that the bank is or could soon be self-sustaining is bogus.

V. DEMAND FOR EXIM'S LOAN PROGRAM HAS REMAINED LOW

- In recent years, demand for Exim financing has been significantly below authorized levels.

Exim Direct Loans ($ millions)	1983	1984
Ceiling..................	$4,400	$3,830
Authorizations..........	845	1,467
Percent of Ceiling......	19.2%	38.3%

- For FY 1985, the demand is now estimated at $2.4 billion as compared to the authorization ceiling of $3.9 billion. Even so, commitments for the first six months of 1985 have been only $276 million in comparison to $347 million for the fist six months of 1984 when total demand was just $1.5 billion.

VI. THERE ARE BETTER WAYS TO ADDRESS DETERIORATING U.S. TRADE BALANCE

- The overwhelming need is to address overriding macroeconomic factors. World-wide demand and the relative strength of the dollar are dominant factors in determining the U.S. trade balance.

- Global recovery -- and with it world-wide demand -- still lags the U.S. Global recovery depends on continued U.S. recovery and will require adoption of sound national policies similar to those adopted by the U.S. in the last four years.

- The best solution to the U.S. trade deficit is to assure continued U.S. recovery with further reductions in federal spending and in the fiscal deficit -- through enactment of the "Deficit Reduction Plan".

- Since 1980 the U.S. dollar has appreciated 43.7% against a market basket of other world currencies. On a trade-weighted basis it has appreciated about 70% -- making the price of imports relatively cheaper and the price of U.S. exports more expensive. Exim loan subsidies -- as a means of making U.S. exports more attractive -- are utterly inadequate to offset this appreciation of the dollar as the following table illustrates:

Price for $100 of U.S. Exports

Market	Cost With 1984 Dollar Exchange Rate	Cost With 1984 Rate & Exim Subsidy	Cost With 1980 Dollar Exchange Rate
France..............	$100	$89	$47
West Germany........	100	89	62
Japan...............	100	89	81

VII. IMPACT ON FEDERAL BUDGET, FINANCING AND ECONOMIC COSTS

- Despite past rhetoric that Exim is self-sustaining, the direct loan program has involved large economic subsidies.

Estimated Subsidy

	1981	1982	1983	1984	Totals
Program Level ($ millions)......	$5,431	$3,516	$845	$1,467	$11,259
Present Value Subsidy ($ millions)....	1,359	692	101	189	2,341
% PV Subsidy....................	25.02%	19.68%	12.00%	12.88%	20.79%

- The proposal to eliminate the direct loan program and replace it with an interest buy-down on guaranteed loans is intended to get Exim out of the loan origination business.

- It makes more explicit the economic subsidy associated with Exim lending which is the differential cost between commercially financed loans and the actual cost to exporters with government financed loans.

- The economic subsidy for both the direct loan program and interest buy-down program is identical.

- The financing cost to the government is marginally higher with the interest buy-down program, but it eliminates the need for massive Treasury borrowing.

Impact of Elimination of Direct Loan Program
($ millions)

	1986-1988
Treasury borrowing authority eliminated..................	-$10,184
Budget outlay savings..................................	-$3,874

- The following table compares costs associated with the current direct loan program and the proposed interest rate buy-down program. It assumes comparable coverage of $1.8 billion, 9 year maturities, 3 year disbursements and a weighted average interest rate below commercial rates of 11.0%.

- The financial cost of a direct loan program, based on Treasury borrowing costs, is computed to be $35 million, while the interest buy-down proposal would cost $77 million -- $100 million in buy-down payments offset by $23 million in commitment fees. The borrowing costs associated with the direct loan program are assumed to result in a 1.25% negative interest rate differential, whereas the average interest rate buy-down is assumed to be 2%.

Comparative Costs
($ millions)

	Economic Subsidy	Financing Costs	Gov't Loan Origination
Direct Loans...........	$200	$35	$1,800
Interest Rate Buy-Down...	200	77	0
Difference..........	0	+42	-1,800

VIII. AN INTEREST RATE BUY-DOWN PROGRAM STILL FULFILLS CONGRESSIONAL INTENT

- The proposal will support up to $1.8 billion in guarantee commitments and will enable Exim to meet foreign official subsidized competition.

- Demand for U.S. exports continues to be slack and a preference for guarantees vice direct loans has emerged. For example, on a recent major sale of aircraft to Yugoslavia no direct loan financing was involved, and only 50% of the transaction was supported by guarantees.

- Having an OECD matrix that moves with interest rate fluctations will diminish demand even further. Moreover, the OECD aircraft agreement which places the rate at 12% increases the likelihood that this sector can rely on the commercial sector for export financing.

Senator HECHT. Thank you, Mr. Stockman.

Mr. Stockman, in glossing over, you failed to hit on the most controversial issue from our past hearings; that is, the proposed fees on FHA and VA loans, Fannie Mae, Ginnie Mae, and Freddie Mac. The people at the other hearings are saying: Is this not a tax increase given that these programs are self-supporting?

Mr. STOCKMAN. Mr. Chairman, let me answer that. The reason I glossed over these proposals is that they involve a few hundred million dollars' worth of savings versus these others, which are several billion.

PROPOSED 5 BASIS POINTS

Let me try to answer this way. Many had argued that the February budget proposal which charged the federally sponsored credit agencies—Freddie Mac, Fannie Mae, and so forth—a fee of 5 basis points in 1986 rising to 8.3 in 1987, was too Draconian.

In the deficit reduction plan, we have now compromised all the way down to 1 basis point in 1986. Then we build it up slowly, 2, 3, 4 and 5, so we don't get the 5 basis points until 1990, 5 years for the market to adjust. People will be put on notice and will never go up to the 8.3 basis points. We just cap it at 5. Five basis points is about 5 cents on every 100 hundred dollars' worth of new debt and passthrough securities issued by these agencies. It's de minimis, relative to the size of debt.

The second point, Mr. Chairman, is: Why are we doing this?

The answer is that we have had an explosion of debt and passthrough issuances by these agencies over the last 10 years. There is now 339 billion dollars' worth of Federal agency debt and passthrough securities out there in the market competing with Treasury bills for investors and, thereby, as an unequivocable and unassailable fact of life, increasing what we have to pay to finance this $1½ trillion Federal debt that we have today that needs to be financed to keep the budget moving.

Now these agencies carry out desirable social objectives. The Farm Credit Administration provides cheap credit for the farmers to buy land. I don't think that was so smart over the last 4 or 5 years, but that was done. And that program is going to have to keep going, given how deep we're in. They provide a lower cost of housing credit by warehousing mortgages and providing guarantees on passthrough securities in the secondary market in order to make mortgage money available at a lower cost. But I don't think that they provide housing that isn't there, they just simply reduce slightly the price that everybody in that system out there will have to pay for the mortgage.

And I don't think that in the kind of economy we're in in the mid-1980's, where we've got plenty of housing but our manufacturing and industrial sector is being devastated because of high interest rates because of the deficit and because of the international economic situation. I don't think that we ought to worry quite as much about housing now as we have in the past, and we ought to worry about getting this deficit down. And here is one way to do it.

Fourth, what is the reason for charging them a user fee? It's not a tax. We are charging them a user fee just like the banks charge

any other client for a standby letter of credit or a standby credit arrangement, because let's face it, not one of these agencies could go out into the market and borrow the $339 billion that they have outstanding based on their balance sheet alone. If Fannie Mae, $87 billion in debt, and $1 billion in questionable equity went into the market today on its own balance sheet, they would pay 5,000 basis points over the market or over Treasury, not 25 basis points.

The only reason that these agencies can get money at the Treasury rate of interest or a mere couple of basis points above is that the market knows the Federal Government stands behind them and if they ever got in big trouble, they could utilize their, in effect, de facto credit line to the Treasury.

Fannie Mae has one of a couple of billion dollars, Freddie Mac, the Federal Home Loan Bank Board together, have one of $4 billion. Everybody knows that one way or another the Government that created them will stand by the Farm Credit Administration.

So what we're simply proposing here is that since by allowing them to use our credit rating we are increasing the cost significantly of the Federal budget to finance our debt that it is not wrong to charge a very minuscule fee for the line of credit that allows them to go into the market with the nonexistent balance sheet and get the cheapest money in town.

Most of the banks charge 25 to 50 basis points for the same kind of standby credit. It makes that commercial paper good that some X, Y, Z corporation goes out into the market with. We are proposing that not 25, not 50, not 8, not 5, but 1 basis point in order to continue the ability to go out there. Five basis points by 1990, when it's fully effective. I don't think that's unreasonable.

That's the reason for it and despite all these horror stories and exaggerated claims you're going to hear from some of the people who are operating in these institutions, the fact is they can absorb this. The fact is it's a fair assessment to be made in terms of what they get out of it, given the budget situation that we are in today.

Senator HECHT. The next time you change on this, please notify us because our mail has been going crazy on this. I just ask, if the staff had been informed—they weren't informed either. I am concerned with Fannie Mae's $80 billion portfolio that keeps growing.

RISKY PORTFOLIO

As head of management for the Government, why do you allow this risky portfolio to even continue? And why shouldn't we sell off this portfolio?

Mr. STOCKMAN. That gets to be a very involved story. There are two components to your question. If you wanted to have a one-time cleanup—and don't get me wrong, I'm not advocating this here today—but if you wanted to have a one-time cleanup and sell all those below-water Fannie Mae mortgages at some discount out in the market and put them into a resting place, or all the other secondary financial instruments on mortgages that we have out there, take a writedown on the Federal books, it's all booked capital, it's not real capital, close out the operation—except if they wanted to continue as a passthrough agency like Freddie Mac and Ginnie Mae, they could.

Now that would be one solution. Frankly, I don't think it would change anything in the real world. But it would be a very dramatic thing. It would remove an institution that has become kind of an anchor in the financial market. So, therefore, you probably wouldn't want to do it.

But if you really look at what's going on here, that is a book loss. If they perform on those mortgages, they are going to have to keep financing those at a loss over time. You could have a one-time sale. The problem is there are a lot of stockholders who would lose money, and I don't think it would be worth having the Federal taxpayers pay them off for this kind of operation.

So I don't think it makes sense to sell them off unless you are prepared to clean up the books and close down the warehousing operation.

In terms of the future there is some question about the risk involved of continuing to warehouse mortgages. As you know, Fannie Mae does two things: One, it packages primary mortgages, puts mortgage-backed securities behind them and sells them off into the secondary market for insurance companies, pension funds, banks, and others who buy them. Fannie Mae is unique in that. That is the deep and liquid secondary market that we have in this country, the greatest thing going for housing that we have.

Fannie Mae competes with private interests and competes with other federally sponsored agencies, Freddie Mac and Ginnie Mae.

If you allow them to continue that, you would have a pretty good operation. Your question is: Should they also keep buying them—issuing more debt to finance the warehousing? I think that's a question for this committee to consider. But you just ought to know that you run enormous interest rate risks the longer that they continue in this warehousing operation. They are lending for 30 years, they're borrowing short. Most of the securities are under 5 years.

Right now, obviously, they can borrow cheaper than they can lend but that assumes that the interest rates never go above the current levels. You can get a flareup 3 years from now or 5 years from now, like we had in the early eighties and you are going to get another hemorrhage in terms of those locked in mortgages. That isn't the issue involved in these user fees. That's a long-run issue that this committee ought to consider very carefully as you look at the overall Fannie Mae issue.

Senator HECHT. As I asked Secretary Pierce before you were here, many programs have been cut down, but the administrative overhead remains relatively constant.

How can we justify this?

Mr. STOCKMAN. Well, I'm not sure that the administrative overhead has remained relatively constant. It depends on how you measure. But I think we could probably submit to the committee a whole variety of examples where overhead costs per dollar of benefits actually delivered have come down rather substantially.

We need to keep working on that and that's one reason why, in this deficit reduction agreement, there is a mandated 10-percent cut in the overhead costs, the administrative costs of every agency of the Federal Government. To implement that, we are going to have to reduce Federal employment, reduce Federal travel, reduce consultants, and all the other things that create overhead cost.

That is part of the plan, not what I testified on today but in other parts of the plan. We will reconcile the committees to actually implement them.

Senator HECHT. Thank you very much.

Senator Dodd.

Senator DODD. Thank you very much, Mr. Chairman.

Mr. Stockman, I'm glad you only summarized. [Laughter.]

I must tell you, you have done a masterful job and raised some tremendously valid points about a number of issues. I wish I could get into everything. But I want to compliment you on what I think has been a very profound piece of testimony, one that raises certainly a myriad of questions. And you have made some excellent suggestions for which you are going to find some strong bipartisan support.

But let me just address a couple of them. You weren't here when Mr. Pierce was here. As he has done in the past, he indicated a different point of view on the UDAG Program, which I know you're well aware of, being far more supportive of it.

You cited in your testimony a number of cases that certainly one would have a hard time justifying without knowing more about them. Your characterization of them would make them difficult to justify. But, there are a number of others that have actually been very, very fine and had a positive impact on very hard hit areas of our country.

STATISTICS SIGNIFICANT

Obviously, there has been significant recovery based on national statistics. But, we all know that national statistics don't always reflect what's going on in regional or local areas. And, of course, in many cases, we have seen over the past couple of years where the UDAG Program itself has, according—at any rate, to the figures I have from the Housing and Urban Development Department—produced some 50,000 permanent jobs, 50,000 jobs for low-income persons, 100,000 construction jobs, $2 billion private investment and $40 billion in local tax revenues as a result of a $440 million investment in the UDAG Program.

What I'm merely going to suggest to you and ask you to comment on it is that while you certainly made very valid points on how these dollars have been misused in some areas, and I would not sit here today and engage in a long debate or argument with you over that, I would ask you to comment on whether or not you would agree that in certain areas this has been a very worthwhile program? And what we ought to be talking about, rather than the termination of this program, is a concerted effort on the part of the administration and this Congress to try and make this program do that which I think all of us would like to accomplish with it.

I could go down the list as well and cite West Virginia, Selma, AL, and a number of other cities that have really benefited tremendously as a result of the UDAG Program in areas where I think most would agree the likelihood of private investment in those areas was de minimis were it not for the UDAG Program and similar such efforts on the part of State and local governments.

As you correctly point out, State and local governments do offer attractive management. We would not have seen that development there. But doesn't that seem to you, and I agree with you about the overall deficit picture, but rather than terminate this program entirely, given the fact that we have some significant benefits achieved, we ought to be using our energy to make this program work better rather than to eliminate it?

Mr. STOCKMAN. I think that's a fair question, and a good observation you have made. Let me just try to give three points. The first point is, suppose you can clearly demonstrate that some of the jobs were created and investment has occurred in local areas that wouldn't otherwise have occurred, both projects that you would approve of, as well as some of the examples I mentioned here, that you wouldn't necessarily approve of—ski resorts and things. But the jobs and investment are only the local measure of benefit per dollar of UDAG grants.

The second point is that you have to fund UDAG. Where does that $440 million come from? We either borrow it or we impose taxes on businesses and individual workers to pay for it. That 440 million dollars' worth of borrowing and taxing in the national economy has an offsetting cost in reduced investment and lower jobs that is probably, on a national basis, equal to whatever gains you can count in the economy of the local areas where it goes.

There's nothing wrong even with that. In the past, we have said the national economy will pay the price to help the areas that are lagging behind. But, my argument in 1985 is that the national economy is now beginning to hurt so bad because our fiscal situation has gotten so far out of control and the national economy which creates local jobs in manufacturing, which is your distressed cities, for the most part, that's the old industry, the old smokestacks, are being hurt so bad by the high dollar and the high-interest rates today that the idea of hurting the national economy to help the localities no longer makes any sense.

If we can help the national economy by getting the deficit down, interest rates and the dollar will probably preserve more old smokestack jobs in the localities that are most distressed than if we tried to target UDAG assistance.

That's my third point.

If I ever had any confidence that we had the collective ability in this Congress and the system to have stringent targeting criteria so you could actually put it in to manifestly distressed areas and localities of the country, maybe you would have a point on the margin. But look at what has happened with this program.

That is what I tried to demonstrate today. Look what happened with EDA, look what happened to general revenue sharing. We are simply not going to do it.

We are going to spread the money far and wide because that is how we get 51 votes in the Senate and 219 in the House, and to think that you could target it in the industrial jobs, not commercial—we don't need them—and in the precise distress of old urban areas, not 90 percent of the cities in Connecticut but maybe 4 or 5—to think that could be done I believe is sort of wishful thinking. We have 20 years of history to prove we can't.

So on the merits of things I think it is time to terminate this program entirely and get on with the business of deficit reduction and strengthening the economy.

Senator DODD. I obviously don't disagree with your last point at all, but I do think there is a substantial body of wisdom that suggests that while there is obviously a $440 million savings, assuming we were to freeze the program at last year's levels, that as a result of permanent job creation, temporary job creation, construction job creation, the revenues that come into localities as a result of the private sector development, that those benefits—and I asked Mr. Pierce if he could suggest to us at all what the estimated revenue loss would be—or rather, the local tax increase would be without some of these programs—that historically some of our greatest achievements in this country have been as a result of that marriage between public and private sector.

I would suggest that while this program could be reduced, all sorts of things could be done with it, and that in fact our national economy has not suffered as a result of a $440 million appropriation but in fact has been benefited in a number of areas and could even be benefited more if we go through the hard work of trying to target. That is my point.

The other question I have is on the voucher thing as the system of the administration's approach to housing needs. I asked Mr. Pierce about the cost of that program, and I don't know if I am looking at HUD figures or OMB figures.

COST FIGURES PER UNIT

This is the HUD figure here on the cost per unit under the Voucher Program. It is $3,822. It is projected only for a 5-year term, but realistically I think we are probably talking—because we do talk in terms of HoDAG's, and so forth, in 20-year figures—that when you do multiply out that figure times the 20-year lifespan one must assume under the Voucher Program, you do actually equal what the cost of unit construction would be of some $76,000.

I don't want to be too narrow and too detailed on this, but I wish we might get some more honest reflection of the actual costs involved. Five years is unrealistic.

Mr. STOCKMAN. Senator, if I could respond to that. That is a good point.

That is why on B8 of the testimony, if you will look at that carefully, we have addressed it the way we did, so we can compare apples and apples across all programs.

What we provided here is a 30-year period. So in a sense, you have got six sequential vouchers, OK, or you have got two existing section 8 rental certificates, and what we have shown is the present value of the subsidies that would have to be laid out over that 30-year period for a voucher or an existing section 8.

Senator DODD. I don't have any argument with an existing section 8.

Mr. STOCKMAN. Either a voucher or existing section 8 is slightly under $20,000 for that unit.

Now, if you look down below at a new construction unit, here is the difference. We have to lay out the money right now, all of it for

the entire unit, since we originate mortgages in the Farmers Home Administration program, and then if you look at the present value of that money over the next 30 years, because we are paying the interest on it and it is coming back slowly, the present value of that cost for the same 30 years, the same unit, is $60,000 for rental construction, $50,000, rounded, for a home ownership unit.

That is the fairest, most complete and accurate comparison you can have of the 30-year cost of new construction versus a rental voucher or rental existing section 8 unit. The cost to taxpayers over time is three times greater between the new construction, up-front money programs and the 30-year voucher payout.

Senator DODD. Let me ask you a related question here. Let me just try one or two more questions.

Your graphs at the end project—I don't know what page they are on.

Mr. STOCKMAN. I think it is B19 in terms of the housing, assisted housing needs, yes.

Senator DODD. The pie graphs.

Anyway, aren't those numbers somewhat misleading because of what our definition of poverty in terms of housing is—is that a person who is spending something in excess of 50 percent of their income on housing—those numbers? You have got to use that criterion in order to qualify, but isn't that a rather excessive criterion?

Mr. STOCKMAN. Let me answer it this way: This is the formula that has been developed and used in the Senate Appropriations Committee. I think to some degree this committee has looked at it. Let me tell you what it consists of so you can see the logic.

What is the universe of elderly and dependent households and what portion of this universe meets one of the following conditions?

No. 1, exclude those in assisted housing now that are, by definition, spending less than 30 percent of their income on housing because that is the cap.

No. 2, count those that are in inadequate housing and spending more than 30 percent of their income on housing; in other words, 30, 40, 50, or 60 percent, and while they are spending all that money, they are still getting severely inadequate housing.

Then the third component is people who are living in fully adequate housing but have chosen to spend 50 percent or more of their income on that adequate housing. Theoretically, they could have chosen less adequate housing at a lower share of their income, but they wanted adequate housing and are spending more than 50 percent of their income to get it. We don't think that they should have to spend more than 50 percent of their income for adequate housing.

MASS TRANSIT ISSUE

Senator DODD. The next point I would like to raise here is the mass transit issue. The suggestion has been that the people who are utilizing our mass transit systems—I think the image has sort of locked in their minds as someone in a Brooks Brothers suit with a Gucci bag waiting with the Wall Street Journal tucked under their arm at Westport, CT. In fact, the big users, something like 40

percent of the users of mass transit have incomes that are below $10,000.

Mr. STOCKMAN. That is right. If I can respond to that——

Senator DODD. In fact, air transportation, which we are really not talking about here, receives a far greater Federal subsidy, yet the people who utilize air transportation are obviously more affluent than those using ground mass transportation.

And obviously, your statements earlier about safety nets, the administration's longstanding commitment to do something for the number of people who fall into that income category, yet what you are suggesting here in terms of operating subsidies, while it is more modest than what was originally proposed, still seems to me is going to fall in a very hard way on those who do fall into the very category the administration is targeting for help.

Mr. STOCKMAN. If I can answer your point on the low-income share of users, you are right. But, what you have to know is that that number, those earning under $10,000, is from a 1977 survey.

Now, over the last 8 years, we have had an enormous amount of inflation, and all incomes have increased as a result of that—cost of living adjustments and so forth. On the top of page C4, we move the survey results up to 1985 incomes that we normally think of. You can see that the share of public transportation riders earning below $10,000, if that basic pattern has prevailed since 1977—and there is no reason to believe it hasn't—has decreased. In 1985, only about 23 percent of total public transportation riders would be below $10,000, almost 50 percent above $20,000 at today's incomes, and the rest in between.

Now, 23 percent below $10,000—that is the poverty line or below for a family of four—is something to worry about, but on the other hand, you can't spend $3 for every $1 that ends up getting targeted to the low income.

If you want to help the low income, either add to their base cash benefits or have a special fare that could be provided at the local transit authority level or from State and local taxes, if people wanted to do that, in order to put the money where it would actually help people who are below the poverty line.

But today, 75 percent of the dollars are going to people above poverty. That is the inefficiency that is involved, and we have got to find some better way to deal with it.

Senator DODD. Would you address the question of air transportation?

Mr. STOCKMAN. Somebody has made an argument that air transportation is subsidized because you can deduct the cost of air transportation if you are traveling for business purposes. Well, you can deduct the cost of all kinds of things if you are traveling, or entertaining, or working for business purposes.

There will be an effort to change the Tax Code to say whether travel and entertainment expenses are good or bad ideas, but that is not a direct Federal spending subsidy to the air transportation sector.

We basically have raised the user fees on both commercial airlines and general aviation. In 1982, we did, that, and we are trying to get to a point where 85 percent of all the capital costs for the air

traffic control system and the operating costs come out of the trust fund and user fees.

We are not quite there because there are a lot of obstacles in the Congress, but that subsidy is disappearing, and if we go with this package we will get most of the rest of it.

And the argument that there is a subsidy through the Tax Code I don't think really holds up in this case.

Senator DODD. I have taken far more time than I am allocated, Mr. Chairman.

Once again, I do find this is excellent testimony. It raises a lot of good points. I appreciate your being here.

Senator HECHT. Senator Gramm.

Senator GRAMM. Thank you, Mr. Chairman.

Mr. Stockman, let me begin by saying that again, as in the past, you have raised the level of analytical presentation and analysis in the Government above the level that anybody had ever done before you came to Washington. I would just like to say that the work and brainpower that went into this entire analysis really moves us out of this swamp of conceptions that all you have got to do to create a job is to spend money at the Federal level, as if the money came from Heaven and not from working people or from deficits. The analysis moves us away from this idea that you can create new investment by having a Government program put up the money and if a penny goes to the poor and 99 cents goes to everybody else then it is justified because of the 1 cent.

I think what you have done more than anything else is to bring to bear an analytical analysis of this whole problem, and I think quite frankly that you are largely responsible for a lot of the progress we have made in the past. Quite frankly, I hope we continue that progress.

ANALYSIS OF UDAG

I would like to ask you about a couple of things. I would like to, first of all, go back to the discussion of UDAG.

We had a comment made earlier about your analysis where you talked about the redistribution of capital. One of our colleagues raised the point as to one of the examples you used about the redistribution of capital as it related to farm machinery.

The point was made that that project had in fact failed and it was a perfect example of where you were wrong. You were claiming that you had reallocated jobs. In fact the investment had not produced any jobs. The company had gone broke.

I would like to ask you to respond to that.

Mr. STOCKMAN. I think I have argued two things. No. 1, at best you are reallocating jobs and capital. Probably in many cases you are not doing anything at all except goldbricking.

Now, it could be argued, well, OK, let's not build any hotels, motels, or shopping centers. We have got plenty of them. Let's make UDAG an industrially targeted program along with the manufacturing jobs and industrial production.

My point is, though, that the trends at work in the industrial sector are so big and powerful, some of them due to the fact that things are changing, some of them due to the high dollar, that a

few hundred million dollars' worth of UDAG is just like throwing a pebble in the lake.

In the case of the implements—the cottonpicker, I guess, which was the example—the fact is there is such an enormous depression in the agricultural sector today because too much land was put into production and too much equipment was sold nothing is being produced by way of agricultural implements right now.

John Deere just announced that for the next 6 months they are shutting down their factories entirely. Well, in that kind of industrial environment, UDAG, as many dollars as you could ever put in there, will not revive those local jobs and will not revive that factory.

I think that is the point I have been trying to make. What we need to do is have a strong macroeconomy, sound fiscal and monetary policies, and the jobs will come. If you try to spend money on a targeted basis to save some and promote others, we are going to end up wasting it. That is apparently what this grant award announcement anyway is ending up to be in this case.

Senator GRAMM. Just to follow on the point, the interesting thing to me was that somehow because the plant went broke it repudiated your arguments that you had reallocated jobs. In fact, what UDAG did was first reallocate them, and then the capital was squandered because the whole venture went broke. That is an argument against UDAG, not for it.

Mr. STOCKMAN. Exactly.

Senator GRAMM. I want to address one additional issue. That is the whole issue about what our approach should be. Of course, you have got three approaches.

One of them is do nothing and come along later and raise taxes so the party can go on, but that approach is not in vogue because the American people are on the other side of that debate.

So the approach almost always takes a different tack. Rather than coming in and terminating programs, what we ought to do is basically just hunker down a little and fund UDAG at a lower level and keep all these programs on the books.

What has been our experience in the last 4 years in trying to deal with the problem in this way?

Mr. STOCKMAN. I think we are so deep in the hole now that simply by giving every program a haircut isn't going to work as a practical matter. It won't produce enough savings as a budget matter.

We tried in 1981 to phase out a number of programs over 3 years along with just the kinds of arguments that are being made here about UDAG. EDA was one of them. Well, it is 1985. It was supposed to be phased out over 2 years. EDA is still here. Now, we are making a second effort to get rid of it.

Impact aid was another one. That was to be phased out over 3 years in order to give school districts notice. Here we are approaching the 1986 budget year. Impact aid, part B, is still alive at $100 million a year.

So as a practical matter, unless you make that decisive choice now in this big budget context, the programs will stay alive, and some will come back all the way to the funding level they are at now after a couple of years of the appropriations process.

But more importantly, you just won't save enough money. We are now in the situation where even when you cut defense all the way back to the bare bones, which we have, even when you cap COLA's in a very rigid way, which we have, even when you take an enormous amount of money out of entitlements like Medicare, Medicaid, agricultural price supports like we have, you don't hit the $50 billion in the first year. You don't hit $300 billion over 3 years just by taking a haircut on the rest. You have to eliminate several dozen programs to get the savings we need.

CHANGE THE SCOPE OF THE GOVERNMENT

Senator GRAMM. So, in essence, what you're arguing is that if our objective is to control spending what we've got to do is to change the scope of the Federal Government. We have got to reduce functions that were set in place in another time, under other economic circumstances. While the Secretary referred very fondly to programs he administers, the choice is between sustaining a recovery, which in terms of housing and urban development through low-interest rates and jobs, is going to have more impact, favorably, on those things than the very programs we've got to control to sustain that recovery.

Mr. STOCKMAN. I think that's exactly it, if I could give you one example. It seems to me it makes the case as I understand it.

One of the groups that's been beating the drums the most over the last 3 years about these terrible deficits, for good reason, and the high-interest rates that result from them, which is correct, and the damage that that does to housing is the National Home Builders. And you can't build 2 million units of housing a year—new housing—if mortgage rates go back up to 15, 16, 17 percent.

But as I understand it, they're not supporting this package because we're getting rid of 50,000 units a year worth of subsidized new construction, Farmers Home Administration housing.

Now, the point is what's at stake is the 2-million new home construction market with low-interest rates that we could get with this package versus 50,000 units of subsidized rent construction that we don't need to help the poor but have been around here for a long time.

And it seems to me when you compare that kind of ratio, 95–5, it's pretty clear where the priority ought to be. Getting the package, getting the deficit down, and improving the macroeconomy for 2 million units of housing, not on 50,000 units of subsidized housing that we don't need, and wrecking the package.

Senator GRAMM. Thank you, Mr. Chairman.

Senator HECHT. One last question, Mr. Stockman.

There have been several alternatives offered for continuing these Farmers Home Administration programs. One of these is to sell off a portion of their loan portfolio. Another is to convert the program from direct loans to an interest rate subsidy.

There is considerable support in Congress for these programs. If Congress decides to continue to build houses in rural areas, would it be preferable to implement one of these options or other changes over simply continuing the current programs.

Mr. STOCKMAN. I would have to say I don't think so. The real issue is whether you're going to have a very expensive new construction program or whether you're going to try to help rural, poor people with vouchers and certificates that can be made available on a fair basis.

So, I wouldn't encourage these alternatives. On the first one, selling the loan assets. We didn't propose to do that in the case of rural housing although, you know, we own billions of dollars' worth of those loan assets because basically you would be selling off those loan assets that are now held by the Farmers Home Administration to a bunch of junk dealers out there in the private sector who would come in and foreclose on somebody who had a small amount of months or are a little behind in their payment.

And you're dealing with people—families—that are on the margin of poverty—some above, but still—that can run into circumstances where they're laid off temporarily, and so forth.

We have forebearance in the Federal Government and we're under various court orders to give people even more than normal forebearance. And I think if you want to change the whole character of this program, go ahead and sell those loan assets—if anybody will buy them in the private sector—and then listen to the screams you're going to get as those people who now are in the business of repossessing used cars take on some of these loan assets and go out and try to shut down and foreclose on very low-income families because they got behind on their mortgage.

I wouldn't recommend that. I think it's a phony savings and the only way you could make it work is to allow the buyer of these assets to sell them back to the Federal Treasury if somebody got behind on their payments, got delinquent. Well, if you're going to do that, it's not worth doing because a loan asset under repossession is the same thing as a T bill except it costs more money.

As for the interest rate buydowns, that is not a very sensible program to get into. We resisted it in 1982 and 1983 when mortgage rates were way up high. If you want to put money into the pocket of low-income people, give them a voucher and that is the best way to do it.

Let's not have a subsidy program for the builders and developers. They're all big companies, little companies, they're all in the commercial business. If they can't stand on their own hind feet and make a go of it building houses in one way or another in a market that's been pretty good—2 million units a year or slightly under—it can't be the responsibility of the taxpayers to keep those companies going.

Let's help the people who have need, not the companies and the developers who want to have subsidized construction and shelters to pay back in 17 months.

Senator HECHT. Thank you, Mr. Stockman. Mr. Stockman, we'll have a 30-minute break and continue right on—30-second break and continue right on to the next panel.

[Recess.]

Senator HECHT. We will now continue the hearing. Because we have gone far more time than was allocated, I'm going to ask each of the panelists to hold their remarks to 5 minutes then if you haven't—we'll notify you. I'll give you 1 minute to summarize, but please condense your remarks to 5 minutes. I'll hold the Senator's questions to 5 minutes, too.

The first panelist is John Luke.

Mr. Luke.

STATEMENT OF JOHN LUKE, ASSOCIATE DIRECTOR, U.S. GENERAL ACCOUNTING OFFICE

Mr. LUKE. Mr. Chairman, I have with me this afternoon Mr. Gaine and Mr. McLaughlin, who have been the principal GAO managers involved in reviewing the 502 Program, will be testifying on some of the preliminary results of our review today, Mr. Chairman.

Senator HECHT. OK, let's get right into it.

Mr. LUKE. I'm going to try and truly summarize my comments.

Senator HECHT. Please do.

SINGLE-FAMILY HOME OWNERSHIP PROGRAM

Mr. LUKE. Mr. Chairman, we appreciate the opportunity to assist your subcommittee in considering some of the important issues surrounding the Farmers Home Administration section 502 Single-Family Home Ownership Program. As I indicated earlier, we're in the final stages of completing a study within Farmers Home principally directed at targeting and reducing costs within the Farmers' Home 502 Program.

As I indicated we'll basically highlight some of the early indications of that work.

First, who is benefiting from this program? The principal beneficiary of this program—the majority of the 502 beneficiaries in fiscal year 1984—were white, 3 or more person households, headed by persons under 35 years of age with a median income of $11,400. They primarily bought new, three-bedroom homes having an average of 1,080 square feet of living area. The median purchase price of all homes financed in 1984 was about $40,700.

Turning to targeting, the rural housing amendments in the Housing and Urban Rural Recovery Act of 1983 mandated that not less than 40 percent of the housing units financed on a national basis under the section 502 Program, will be provided to very low-income households. Those whose incomes do not exceed 50 percent of area median income.

In response to this mandate and the rural housing amendments of 1983, the Farmers Home Administration national office provided guidelines to county supervisors for increasing the number of housing units financed for very low-income households. These guidelines provided for outreach efforts to identify needy, very low-income applicants and a cost-reduction effort to make housing more affordable for more households at this low-income level.

During 1984, Farmers Home Administration made little effort to target section 502 funds to families living in substandard housing. The President's Commission on Housing reported in 1982 that

about 9.4 percent of rural households occupy inadequate housing. However, we estimate that less than 3 percent of section 502 beneficiaries in 1983 and 1984 came from substandard housing.

Now, there are some things that Farmers Home Administration can do to target this program to a lower income client base. Some of the things that can be done with respect to targeting this program are: Pursuing a more aggressive outreach program to identify all the needy households and modify the eligibility rules to allow more people to participate in the program.

And one of the principal things that can be done with respect to targeting this program is reduce housing costs. Now, reducing housing costs, you increase the potential of the number of people that can participate in this program. For example, a reduction in housing price from $42,000 to $36,000, or about 15 percent, would lower the income needed to purchase a home from $10,100 to $8,700, thus qualifying more very low-income households.

COST REDUCTION

Turning to cost reduction, our survey results to date indicate that Farmers Home Administration has done very little with respect to implementing cost reduction initiatives with respect to the Farmers Home Administration program and there are a number of things that can be done with respect to cost reduction.

One, reduce living areas. We've estimated that roughly $75 million annually could be saved with respect to reducing the living areas with respect to some of these houses. Reduce nonliving areas, including garages, which you can roughly save $27 million; carports, roughly, $9 million; basements, about $25 million.

Another cost-reduction item would be to match home size to household size. Costs could be reduced as much as $38 million annually if Farmers Home Administration better matched the number of bedrooms to household size. Reduce amenities on new houses, such as, air conditioning, decks, patios, halfbaths, and paved driveways. This could save, roughly, $25 million a year.

Increase the use of alternate housing styles, such as, townhouses and duplexes. Also, finance more existing housing from the private market. Only 15 percent of the existing houses financed by Farmers Home Administration were from the private market. Farmers Home Administration could reduce housing costs up to an estimated $5,000 per unit by financing more houses from the private market.

Now, turning to the graduation component of the Farmers Home Administration program, as you're aware, Mr. Chairman, the rural housing borrowers are required by law to refinance their loans with private credit when they become financially able, thereby, graduating from Farmers Home Administration credit.

During the 12 months ending June 30, 1984, Farmers Home Administration graduated about 3,500 borrowers or less than 1 percent of the 582,000 borrowers.

Senator HECHT. Excuse me. Can you kind of summarize in 1 minute, now? Your entire text will be available for the record. Please summarize in 1 minute.

Mr. LUKE. Based on the results of our review to date, there are a number of things that Farmers Home Administration can do to, one, target the program, Mr. Chairman, and, two, reduce the cost of the program if, in fact, it's going to serve the most needy or the more needy within it's client population.

In terms of targeting the program, a more aggressive outreach program would be appropriate. Also, cost reduction in housing, thereby, lowering the income required to qualify for this program.

On the cost-reduction side, a better job of matching household size and bedrooms needed; reduce the living space in these houses; also nonliving space with respect to the homes being built today.

Also, a major component of the program costs associated with the program is the inability of Farmers Home to graduate program borrowers after being in the program for a number of years. So an opportunity exists here to also reduce the costs of this program.

That concludes my general remarks, Mr. Chairman. I'll answer any questions you may have at this point or when the panel completes its statement.

[The complete prepared statement follows:]

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR DELIVERY AT
3:00 P.M. EST
MONDAY, APRIL 15, 1985

STATEMENT OF
JOHN H. LUKE, ASSOCIATE DIRECTOR
HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS
RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION

BEFORE THE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE
ON
OPPORTUNITIES TO REDUCE COSTS AND
IMPROVE TARGETING IN THE FARMERS HOME ADMINISTRATION
SECTION 502 HOUSING LOAN PROGRAM

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to assist your Subcommittee in considering some of the important issues surrounding the Farmers Home Administration (FmHA) section 502 single-family homeownership program. As you may know, we are in the final stages of completing a study of FmHA's efforts to reduce housing costs and better target program assistance to rural households. My remarks today represent preliminary observations on the results of our current study.

The objectives of our study were to determine

--who is benefitting from the housing program and what type of housing assistance they are receiving,

--what actions FmHA has taken to target assistance to lower income households, and

--what opportunities exist to reduce program costs.

To accomplish these objectives, we analyzed FmHA's housing loan activity for fiscal years 1983 and 1984. Specifically, we analyzed data on more than 120,000 housing loans made under the

section 502 program during these 2 years, obtained information through questionnaires sent to 285 randomly selected FmHA county offices, and visited 15 of the 285 county offices in 15 states. Additionally, we interviewed selected FmHA national, state, district, and county office representatives; builders; realtors; and representatives from local financial institutions. We also talked with other knowledgeable people from rural housing interest groups and the Department of Housing and Urban Development (HUD).

Our research indicates that there is still significant need for housing among low-income rural households (those with incomes less than 80 percent of area median income). These observations are based on Census data, the American Housing Survey, and FmHA data. Although the 1,900 county offices which make loans under the program provide a viable delivery mechanism for housing services, our analysis of FmHA's performance in 1984 shows mixed results. Specifically, FmHA

--increased its assistance to very low-income households (those with incomes less than 50 percent of area median income) from 24 percent in 1983 to 30 percent in 1984,

--made 14 percent fewer housing loans in 1984 than it did in 1983, and

--did not implement housing-cost-reduction measures at the county level which could have enhanced targeting to very low-income households.

There are a variety of measures which might be taken which would help improve program targeting and reduce cost, such as:

--implementing outreach efforts to very low-income households and households living in substandard housing (lacked complete plumbing or overcrowded);

--reducing housing costs by eliminating amenities, matching the number of bedrooms to household size, limiting the amount of living and nonliving areas, and providing financing for more townhouses, duplexes, manufactured/ mobile homes and existing houses from the private market;

--extending the mortgage period from 33 to 38 years;

--modifying the eligibility rules to allow some very low-income borrowers to pay less than 20 percent of their income for housing; and

--changing the procedures used to encourage borrowers, who have sufficient income, to refinance their loans with private credit.

In my statement today, we take no position on whether or not subsidies should continue to be made available to facilitate low and very low-income homeownership under the section 502 program. Rather, if the Congress wishes to continue to provide such subsidies and target assistance to the most needy, there are opportunities to improve targeting and reduce costs.

BACKGROUND

Under the section 502 program, FmHA acts as a direct lender in rural areas. The rate at which FmHA makes loans is referred to as the note rate. Subsidized borrowers pay at least 20 percent of their income toward mortgage principal and interest plus taxes and insurance (PITI). The difference between the borrower's mortgage payment and the payment due at the note rate is a subsidy to the borrower called an interest credit.

As the borrower's income increases, the effective interest rate the borrower pays increases and the subsidy decreases. When the borrower's income increases to a point where the effective interest rate equals the note rate, then the borrower's payment stabilizes.

In recent years the Congress has been concerned with FmHA efforts to minimize the costs of housing subsidized under its programs. In addition, the Congress has placed increasing emphasis on targeting assistance to those most in need of adequate housing in order to make the best use of funds being provided. In this regard, 1980 Census data showed that of 27.5 million total rural households, 6.5 million were very low-income households--those whose incomes do not exceed 50 percent of area median income. In addition, 2.1 million rural households occupied substandard housing units.

As of August 2, 1984, FmHA had about 1 million loans outstanding, with balances of over $21 billion, including 462,000 loans totaling $11.3 billion with interest credit and 635,000 loans totaling $9.8 billion without interest credit.

SECTION 502 BENEFICIARIES AND WHAT THEY PURCHASED

The majority of the section 502 beneficiaries in fiscal year 1984 were white, three or more person households, headed by persons under 35 years of age with a median income of $11,400. They primarily bought new, 3-bedroom homes having an average of 1,080 square feet of living area. The median purchase price of all homes financed in 1984 was approximately $40,700.

Our analysis of FmHA data showed that:

--The majority of homebuyers were under 35 years of age (72 percent), in households with more than two persons (60 percent), and nonminority (80 percent). (See exhibit A.)

--Slightly over half of the homebuyers had incomes between $10,000 and $15,000 (52 percent) while most had less than $5,000 in assets (83 percent). (See exhibit B).

--The majority of units purchased were built or purchased new (53 percent). Most units had three or more bedrooms (86 percent) and were priced between $30,000 and $50,000 (83 percent). (See exhibit C.)

On the basis of our visits to FmHA county offices in 15 states, we found that section 502 borrowers were employed in a wide range of occupations, such as sales clerks, waitresses, teachers, and welders (See exhibit D.)

We also compared the demographic and housing characteristics of section 502 beneficiaries to all rural homebuyers with comparable incomes. Because the incomes of the section 502 homebuyers generally cannot exceed 80 percent of area median income, we obtained data from the American Housing Survey on rural homebuyers with such incomes. The comparison provides some perspective on what similar homebuyers purchased without FmHA subsidies.

On the basis of our review of the American Housing Survey data, we found that 44 percent of the low-income rural homebuyers purchased mobile/manufactured homes and 12 percent bought houses considered substandard. Low-income rural homebuyers were more likely to purchase existing homes (77 percent) and homes with two bedrooms or less (54 percent). (See exhibit E.) In contrast, section 502 homebuyers generally purchased new homes (53 percent) and homes with at least three bedrooms (86 percent).

In comparing the demographic characteristics of the two groups, we found that section 502 households were generally younger and had more family members. Also a greater proportion

of the section 502 households were minorities and had higher incomes than other low-income rural homebuyers. (See exhibits F, G, H, and I.)

INCOME TARGETING

The Rural Housing Amendments in the Housing and Urban-Rural Recovery Act of 1983, enacted November 1983, mandated that not less than 40 percent of the housing units financed on a national basis under section 502 and not less than 30 percent of each state's housing units be provided to very low-income people.

In response to this mandate the FmHA national office provided guidelines to county supervisors for increasing the number of housing units financed to very low-income households. These guidelines provided for outreach efforts to identify needy very low-income applicants and a cost-reduction effort to make housing more affordable for households at this lower income level.

As you know, after the 1983 amendments were passed, the Congress began to hear complaints about the way FmHA was implementing the amendments. Specifically, FmHA took the position that the 40-percent target ratio had to be maintained throughout the year. This essentially required that the first two of every five loans had to be made to very low-income households. According to FmHA, a shortage of qualified very low-income applicants in some areas of the country restricted the number of loans that could be made. Hearings were held concerning problems in administering the 40-percent target which, according to FmHA and others, had slowed or shut down the program in some counties.

In response to the concerns, the Congress eased the 40-percent rule temporarily in the July 1984 Supplemental Appropriation. This change, which applied only to fiscal year 1984,

required that 30 percent of the funds appropriated be set aside for very low-income people. Further, the Housing and Community Development Technical Amendments Act of 1984 provided that in 1985, 40 percent of funding nationwide and 30 percent of each state's funds must be set aside for very low-income people.

Targeting results in 1984

We found that a greater proportion of section 502 assistance benefitted very low-income households in 1984 than in the previous year--increasing from 24 percent of the housing units in 1983 to 30 percent in 1984. Overall, there was an increase of about 1,440 very low-income loans nationwide. However, while congressional appropriations were the same for both years, total assistance provided by FmHA dropped from 65,000 loans in 1983 to 56,000 in 1984.

This decrease in assistance may have resulted from the approach FmHA used in implementing the 40-percent unit targeting requirement until it was lifted during the last quarter of fiscal year 1984. As a result, 80 percent of total funds appropriated were used and 23 percent were expended for very low-income households. (See exhibit J.) Only 14 states provided 30 percent or more of their loans to very low-income households in 1984. Another 25 states provided from 20 to 29 percent, and 11 states provided less than 20 percent of loans to very low-income households. (See exhibit K.)

Overall, 44 states increased the proportion of loans to very low-income households from 1983 to 1984, but 28 states actually made fewer very low-income loans in 1984. Also, while there was a net increase in 1984 of about 1,440 very low-income loans nationwide, this is largely due to one state which had an increase of about 1,560.

Targeting changes

FmHA will have to make changes in fiscal year 1985 if its very low-income targeting requirement is to be met. A key barrier to assisting very low-income households is their ability to repay their loans. According to one FmHA estimate, 85 percent of very low-income applicants do not have the ability to repay loans. Furthermore, our questionnaire showed that a shortage of eligible very low-income applicants is a barrier to achieving targeting objectives. However, there are some measures FmHA might take to help overcome this barrier. For example, FmHA could

--pursue a more aggressive outreach program. Although the national office encouraged county offices to initiate outreach programs, we found that about half of them did not. Those who made efforts to locate very low-income households in need of housing said such efforts were helpful.

--reduce housing costs which would make housing more affordable and result in substantial savings to the government. Reducing housing costs would (1) lower the income needed to qualify for a loan, (2) lower the payments for some very low-income borrowers who would qualify but would have to pay more than 20 percent of income to meet minimum payments required, and (3) reduce maintenance and utility costs which should help qualify some borrowers. For example, a reduction in house price from $42,000 to $36,000, or about 15 percent, would lower the income needed to purchase a home from $10,100 to $8,700, thus qualifying more very low-income households. (See exhibits L and M.)

--extend the mortgage period from 33 to 38 years for very low-income borrowers. This extension was made possible by the 1983 amendments, but FmHA has not yet revised its

regulations to allow implementation. Assuming construction costs had been reduced, this measure would further lower the income needed for a borrower to purchase a $36,000 home from $8,700 to $8,000. (See exhibit N.)

--modify the eligibility rules to allow some very low-income borrowers to pay less than 20 percent of their income for housing. Reduced housing costs and extended mortgage periods can improve repayment ability for very low-income borrowers who would be required to pay more than the minimum 20-percent payment. However, under the current system, very low-income households who cannot afford to pay 20 percent of their incomes for PITI cannot participate in the program although they may have a great need for housing.

FmHA makes little effort to target section 502 funds to households living in substandard housing. The President's Commission on Housing reported in 1982 that about 9.4 percent of rural households occupy inadequate housing. In addition, the 1983 American Housing Survey shows that 12 percent of all low-income rural households purchased substandard housing. Responses to our questionnaire indicated, however, that less than 3 percent of the loans made in 1983 and 1984 went to people who occupied substandard housing as defined by FmHA.

COST REDUCTION

In response to the Rural Housing Amendments of 1983, FmHA proposed a number of measures in January 1984 to reduce housing costs. County supervisors were to use these suggestions to reach desired cost reductions of 15 percent in the average home price which would assist in meeting very low-income targeting goals. These measures included building houses with less living area, eliminating amenities, using less costly alternative housing, and increasing the use of less expensive existing housing.

We found, however, that nationwide, few FmHA county offices implemented these measures. For the most part, the county offices provided financing for the same type of houses in 1984 as in 1983. In addition, in our visits to county offices in 15 states we found little evidence of county supervisors reducing housing costs. Potential cost reduction opportunities that could be explored include:

Reduce living area

While FmHA has an overall ceiling of 1,200 square feet of living area in new homes, it does not have separate limits for 1-, 2-, or 3-bedroom homes. For example, by setting a limit of 960 square feet for a 3-bedroom home and lower limits for 1- and 2-bedroom homes, we estimate that housing costs could be reduced as much as $75 million annually. We developed these limits with assistance of FmHA architects. The limits are based on a FmHA standard plan for a 3-bedroom house containing 960 square feet which has been used in the section 502 program. In addition, the unit-size limits are well above minimum sizes required by HUD and the Department of Defense (DOD) and those recommended by rural housing interest groups. (See exhibit P.)

Reduce nonliving area

Reducing the amount of nonliving area, including garages, carports, and basements could also reduce housing costs. Nationwide statistics for 1984 showed that about 13 percent of FmHA new houses had over 2,000 square feet of total area. We estimate that 56 percent of the new houses had garages or carports and 24 percent had basements. Based on estimates provided by FmHA county offices and homebuilders, eliminating garages, carports, and basements could save as much as $61 million annually. (See exhibit Q.)

Match home size to household size

Of the new houses built in 1984, 64 percent exceeded the current needs of the occupants largely because FmHA has no criteria to match household size to the number of bedrooms in a house. Without occupancy criteria, county supervisors are not likely to disapprove an applicant's request for a house which may exceed his or her needs. As a result, county supervisors routinely approve 3-bedroom houses for single individuals and small households. Using HUD occupancy criteria, we found that if FmHA could better match the number of bedrooms to household size, it could provide many families less costly 2-bedroom houses while reducing new housing costs by as much as $38 million annually. (See exhibit R.)

Reduce features on houses

FmHA county offices currently include air conditioning, decks, patios, half baths, sliding glass doors, bay windows, and paved driveways as features on many new houses. While these features may contribute to appearance, livability, and comfort, their necessity is questionable when considering the substantial subsidies provided. We estimate that costs could be reduced by as much as $25 million if FmHA limited these features. (See exhibit S.)

Increase use of alternative housing

The use of alternative housing styles such as townhouses and duplexes could reduce housing costs by about $3,000 per unit. However, our questionnaire showed that less than 1 percent of FmHA new construction during fiscal year 1984 consisted of either of the two alternative styles. At the 15 county offices we visited, FmHA homebuilders and county

officials had no plans to build either town houses or duplexes. However, in some locations we visited, these units were being constructed as part of private sector developments, thus illustrating their potential feasibility.

The Rural Housing Amendments of 1983 also authorized FmHA to finance loans on manufactured/mobile homes in order to reduce costs and serve a greater number of low-income households. At the time of our study, however, FmHA had not finalized regulations allowing county offices to finance these units.

Finance more existing housing from the private market

Although 47 percent of the houses financed by FmHA in 1984 were existing homes, only 15 percent were purchased on the private market. The remaining existing homes were sales from FmHA's inventory of owned properties or assumptions of older FmHA loans. FmHA could reduce housing costs up to $5,000 in some parts of the country by financing more houses from the private market. However, little progress has been made in increasing the use of this market because applicants generally prefer a new house over an existing house. Under FmHA field instructions, county supervisors do not have the authority to disapprove such a choice. County supervisors told us that applicants have little incentive to search the private market for a suitable existing house when they can purchase a new home with the same monthly mortgage payment.

Use modest construction standards

In 1984 FmHA field offices in 17 states used a construction appraisal standard which exceeded the construction quality recommended by the FmHA National Office for new homes. About 21 percent of FmHA new houses were built using this higher standard, and as a result, as much as $31 million in additional costs were likely added to FmHA houses financed in 1984.

According to the National Office, the "fair" standard is the appropriate standard to provide a modest but adequate quality house for low and very low-income borrowers. However, we found that 17 states were using a higher "average" standard in their housing programs. A house of fair quality is simpler in design and lower in cost compared with houses built under the higher average standard. For example, compared to houses rated average, fair quality houses might have a lower roof line, no shutters, minimal roof overhang, and a smaller porch. A FmHA National official said that the use of average instead of the fair standard could add up to $5,000 to the cost of a house.

- - - -

The above cost reduction steps could be accomplished without sacrificing construction quality and would still provide section 502 borrowers with modest but adequate housing. However, county supervisors have resisted many of these measures because they believe that the cost-reduction measures would affect future marketability and resale. However, those supervisors we talked to who have financed small houses with limited features have experienced no unusual problems reselling these houses. In addition, some FmHA county offices have waiting lists of up to 1-1/2 years for housing, and at the end of fiscal year 1984, 116,000 applicants were waiting for houses.

COST REDUCTION INCENTIVES

FmHA could provide more incentives to minimize housing costs. But without such incentives, clear guidance and firm limitations on the kind of housing county offices can provide are essential to cost reduction. Under the current system, key parties--the borrower, home builder, and county supervisor--have little incentive to minimize cost. For example:

--Subsidized borrowers generally pay 20 percent of their income for housing, regardless of house price. For example, a borrower with an income of $10,000 would pay $167 a month for a house costing from $15,000 to $40,000. Thus, such a borrower has little incentive to choose a less costly house. Government subsidy costs, however, increase as the cost of the house goes up. In the same example, the monthly government subsidy cost would be only $1 on the $15,000 house but would be $280 on the $40,000 house. (See exhibit O.)

--Builders' profits are generally related to the cost of construction so that they have little incentive to build less costly houses.

--County supervisors generally believe that larger houses are easier to resell if necessary; consequently some are opposed to reducing housing costs.

GRADUATION

Rural housing borrowers are required by law to refinance their loans with private credit when they become financialy able, thereby "graduating" from FmHA credit. Despite initiatives by FmHA, graduation efforts have not been effective. During the 12 month period ending June 30, 1984, FmHA graduated about 3,500 borrowers, or less than 1 percent of the 582,000 borrowers who may have the potential to refinance their loans on the private market. (See exhibit T.)

This low graduation rate has been a concern for some time to FmHA officials. The extent of the graduation problem was documented in a March 1983 report by the Department of Agriculture Office of Inspector General (OIG) and by FmHA internal review teams. The OIG estimated that $1.3 billion in loans could be refinanced according to current FmHA guidelines. FmHA guidelines require that county offices periodically review each borrower's financial status to determine which borrowers can graduate. However, nearly all county supervisors cited one or more barriers that impede graduation efforts. For example:

--County office staff do not have sufficient time to perform graduation reviews.

--Borrowers have a disincentive to graduate because refinancing their loans with private credit sources will increase their monthly mortgage payments and they will have to pay closing costs.

--Private lenders either are reluctant to refinance FmHA loans or will refinance them only as consumer loans with shorter terms.

--County supervisors have a disincentive to graduate borrowers because those who graduate are typically their best borrowers and if they graduate an increase in their delinquency rate can occur.

--U.S. attorneys generally give low priority to pursuing graduation cases referred to them by FmHA.

Because of these barriers at the county office level, the graduation system could be changed to eliminate or neutralize the disincentives that borrowers and county officials now face concerning graduation.

One possible approach would be to utilize a central location, such as the FmHA Finance Center or a private contractor, to initiate all graduations rather than individual county offices. Specifically, the central location would

--mail letters to all borrowers not receiving an interest credit and request that they provide current information on income, debts, and savings and return this information to the central location.

--send followup notices to borrowers until the needed information is provided.

--determine which borrowers appear to be financially able to graduate and mail them notices requesting that they contact the county supervisor regarding graduation.

--provide county offices with information obtained on all borrowers and a list of those borrowers who were notified that they may be capable of refinancing.

The county supervisors could then follow up on such borrowers and either graduate these borrowers or notify the central location of any extenuating circumstances. Most importantly, to reduce borrower resistance, the supervisor could be empowered to rewrite the loan at market interest rate in a form which could be sold in the secondary mortgage market. Those borrowers who fail to cooperate would be threatened with foreclosure as under present policy.

We discussed this approach with FmHA officials who said this approach might be helpful in addressing some of the barriers in the graduation process. If workable, they said it would provide FmHA and its county supervisors with a useful tool in the graduation process. However, they also said that some legislative changes may be needed in order to implement such an approach.

This approach would provide financial information which would enhance the graduation of those borrowers identified in the OIG report as capable of refinancing. The potential savings are large. For example, we estimate that government subsidy payments could be reduced $50 million annually by graduating those borrowers capable of refinancing their loans as identified by the OIG. The ability to rewrite loans in its portfolio would also enhance FmHA's ability to sell the approximately $650 million in above market rate loans it now holds. (See exhibit U.)

Changes could be made in the type of mortgage instrument offered to new borrowers in the section 502 program. FmHA could provide all new borrowers a mortgage that would require them to pay at least 20 percent of their income as long as FmHA provided financing. This change would enhance program equity and provide an incentive for these borrowers to graduate as soon as they are financially able.

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Based on the results of our review to date, FmHA has a variety of alternatives available to reduce costs and target more assistance to needy lower income people in rural areas. Specifically, it could seek more needy households and reduce unit costs to make housing more affordable to very low-income households. Moreover, it could explore eligibility rules to allow needy people, who can not afford housing under the present procedures, to pay less of their incomes for housing. In

addition, FmHA could reduce housing costs and save subsidy dollars in several ways. Namely, it could finance smaller, less expensive kinds of housing, match housing to household size and say "no" to applicants who request housing in excess of family needs. Although housing costs could be reduced, there are currently few incentives for either home buyers or builders to do so. Program costs could also be reduced by changing procedures to encourage borrowers who have sufficient income to refinance their loans with private credit. Taken together, our observations indicate that FmHA could target more assistance to the most needy rural households and provide the assistance at less cost.

This completes my prepared statement. My colleagues and I will be happy to respond to any questions.

GENERAL ACCOUNTING OFFICE
EXHIBITS TO ACCOMPANY TESTIMONY
PRESENTED BY JOHN H. LUKE
BEFORE THE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE
APRIL 15, 1985

EXHIBIT A

EXHIBIT A

Demographic Characteristics (1984)

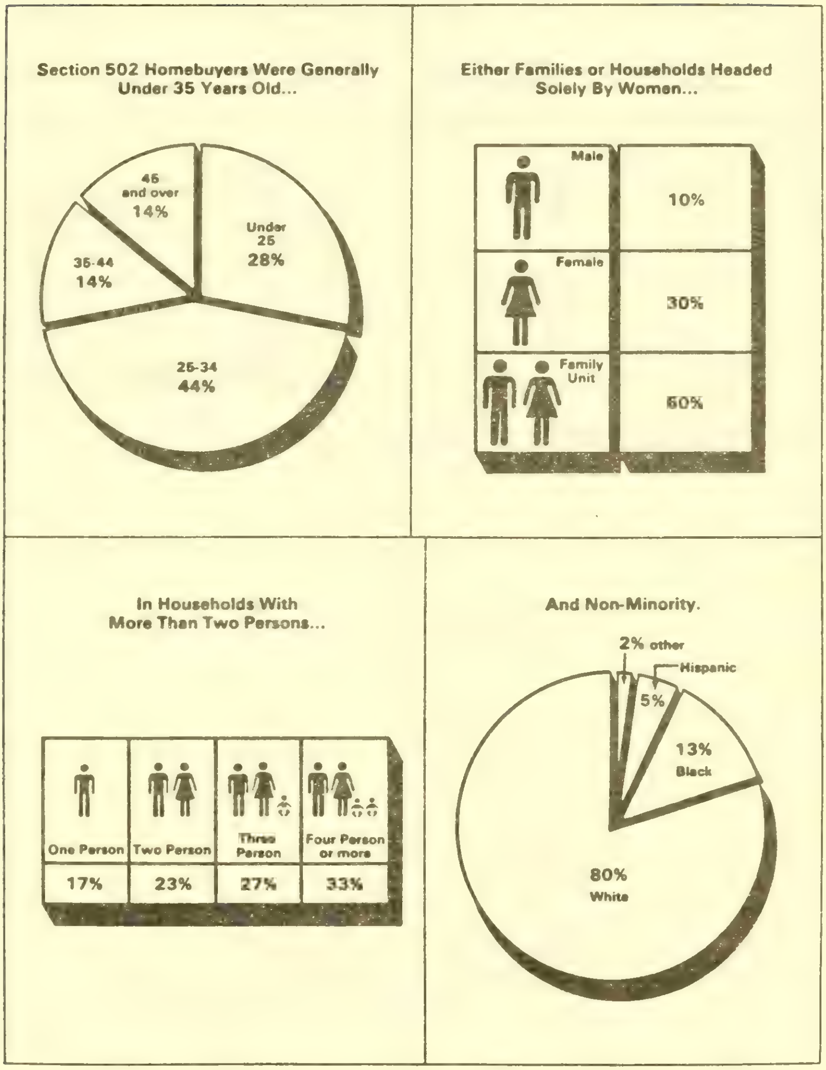

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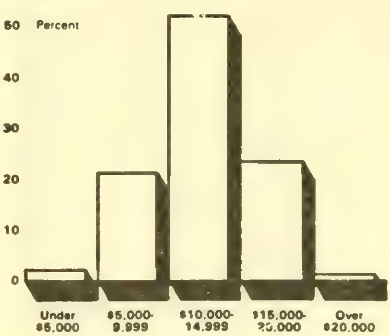
EXHIBIT B

EXHIBIT B

Financial Characteristics (1984)

Section 502 Homebuyers Generally Had Incomes Between $10,000 and $20,000...



And Modest Assets.

Net Worth

Under $5,000	83%
$5,000-$9,999	14%
$10,000-$15,000	1%
Over $15,000	2%

Their Incomes Fell Between 50% And 80% Of The Median In The Areas Where They Lived.

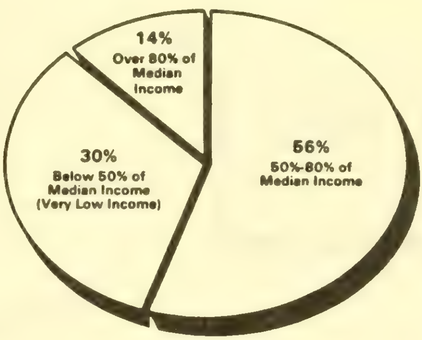
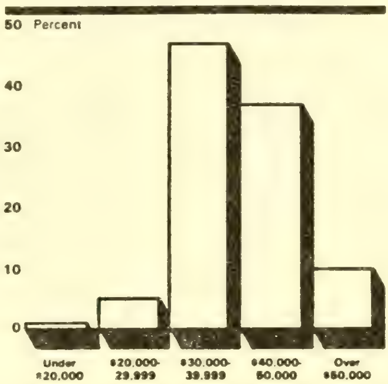


EXHIBIT C

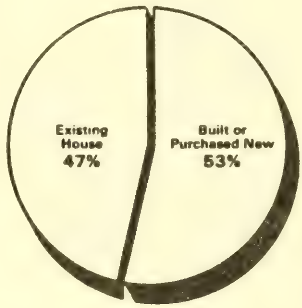
EXHIBIT C

Housing Characteristics (1984)

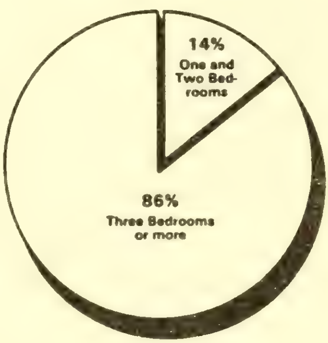
Section 502 Homebuyers Bought Homes Which Were Priced Between $30,000 And $50,000.



The Homes Were More Often New...



With Three Or More Bedrooms...



And Contained Over 1000 Square Feet Of Living Area.

Under 900	8%
900-1000	16%
1001-1100	37%
1101-1200	28%
over-1200	11%

EXHIBIT D

EXHIBIT D

IN THE 15 FmHA COUNTY OFFICES GAO VISITED, SECTION 502 HOMEBUYERS WERE EMPLOYED IN OCCUPATIONS SUCH AS:

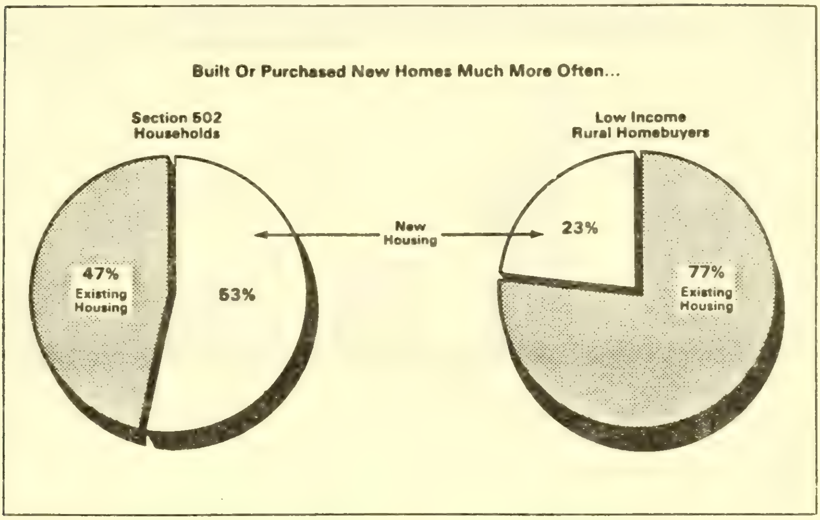
School teacher
Mechanic
Motel worker
Secretary
Hair stylist
Dental assistant
Cashier
Brick mason
Harness maker
Electrician
Longshoreman
Band director
Nurse
Construction laborer
Cook
Pipe fitter
Air conditioner repairman
Electrician
Credit Reporter
Government employee
Lobster fisherman

Waitress
Bartender
Bookkeeper
Seamstress
Realtor
Sales clerk
Travel agent
Seed analyst
Bank teller
Counselor
Dog trainer
Fireman
Machinist
Drafter
Factory worker
Technician
Shoe salesman
Store manager
Newspaper reporter
Computer operator
Railroad employee

EXHIBIT E

EXHIBIT E

Compared To Other Low Income Rural Homebuyers, Section 502 Beneficiaries



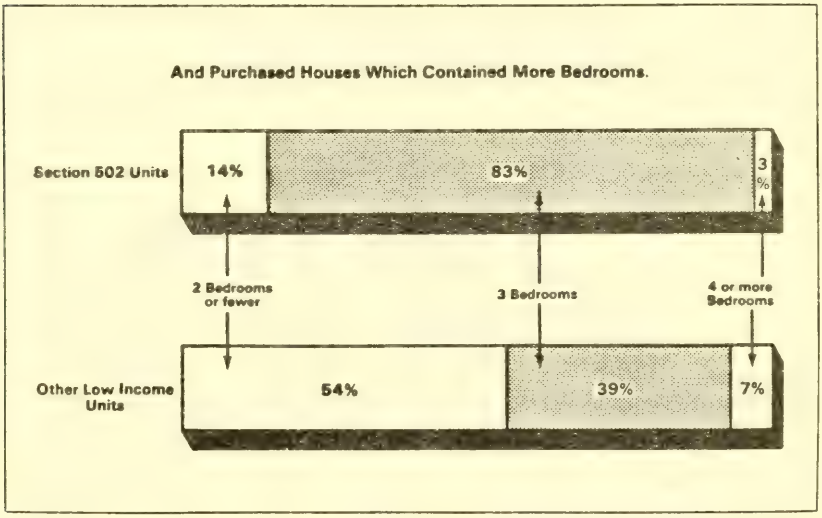


EXHIBIT F

EXHIBIT F

Section 502 Households Are Younger Than Other Low Income Rural Homebuyers

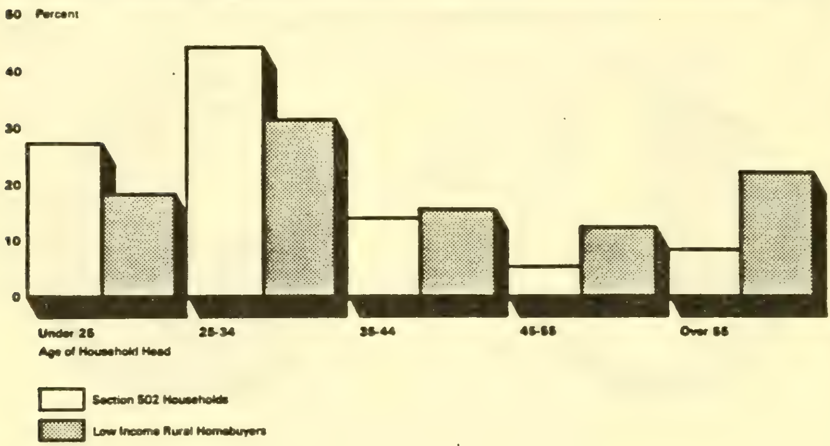


EXHIBIT G

EXHIBIT G

Section 502 Households Are Slightly Larger Than The Households Of Other Low Income Rural Homebuyers

	Persons in Household			
	One Person	Two Person	Three Person	Four Person or more
Section 502 Households	17%	23%	27%	33%
Low Income Rural Homebuyers	17%	28%	21%	34%

EXHIBIT H

EXHIBIT H

**Section 502 Households Are More Often Minorities
Than Other Low Income Rural Homebuyers**

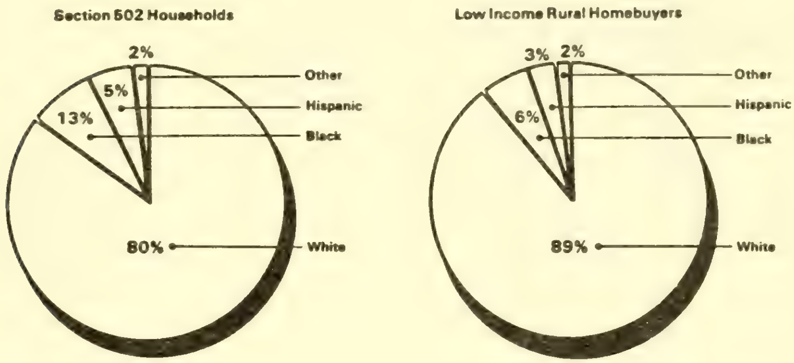


EXHIBIT I

EXHIBIT I

**Section 502 Households Have Higher Incomes
Than Low Income Rural Homebuyers**

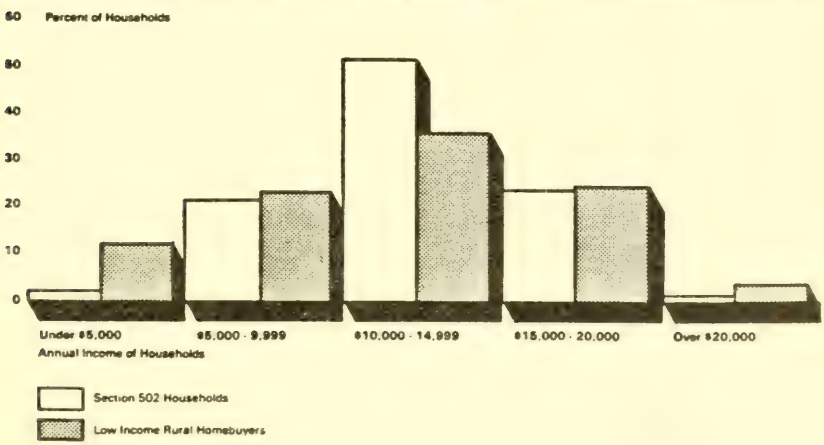


EXHIBIT J

SECTION 502 FISCAL YEAR 1984 TARGETING RESULTS

Borrower income category	Funds appropriated		Appropriation spent	Assistance provided			
				Funds used		Loans made	
	Amount	Percent	Percent	Amount	Percent	Number	Percent
Very low	$ 690,000,000	30	23	$ 519,132,000	28	15,519	28
Low	1,610,000,000	70	57	1,318,917,000	72	39,776	72
Total	$2,300,000,000	100	80	$1,838,049,000	100	55,295	100

EXHIBIT K

EXHIBIT K

STATE-BY-STATE COMPARISON OF 1984 SECTION 502 BENEFICIARIES WITH HUD SECTION 8 INCOME LIMITS

State	Incomes exceeded 80 percent of area median		Low income Incomes did not exceed 80 percent of area median		Very low income[a] Incomes did not exceed 50 percent of area median	
	Number	Percent	Number	Percent	Number	Percent
Alabama	113	9.5	1,072	90.4	475	40.0
Alaska	59	34.5	112	65.4	34	19.8
Arizona	10	35.7	18	64.2	4	14.2
Arkansas	186	13.2	1,214	86.7	400	28.5
California	192	17.3	916	82.6	241	21.7
Colorado	48	12.7	329	87.2	108	28.6
Connecticut	30	9.2	296	90.7	114	34.9
Delaware	10	10.1	89	89.8	19	19.1
Florida	183	21.3	674	78.6	207	24.1
Georgia	157	16.6	787	83.3	257	27.2
Hawaii	23	11.4	178	88.5	59	29.3
Idaho	106	23.2	349	76.7	87	19.1
Illinois	97	11.7	729	88.2	246	29.7
Indiana	69	10.9	561	89.0	176	27.9
Iowa	99	13.1	652	86.8	192	25.5
Kansas	58	16.4	295	83.5	97	27.4

[a]Percentages do not total across to 100 percent because eligible very low-income households are also included as eligible low-income households.

EXHIBIT K

EXHIBIT K

State	Incomes exceeded 80 percent of area median		Low income Incomes did not exceed 80 percent of area median		Very low income Incomes did not exceed 50 percent of area median	
	Number	Percent	Number	Percent	Number	Percent
Kentucky	100	14.1	606	85.8	215	30.4
Louisiana	54	6.3	797	93.6	326	38.3
Maine	283	24.3	880	75.6	251	21.5
Maryland	48	10.6	404	89.3	113	25.0
Massachusetts	48	11.6	364	88.3	133	32.2
Michigan	334	15.5	1,820	84.4	606	28.1
Minnesota	84	14.0	514	85.9	159	26.5
Mississippi	296	6.7	4,083	93.2	2,097	47.8
Missouri	168	11.8	1,245	88.1	357	25.2
Montana	75	19.6	307	80.3	73	19.1
Nebraska	43	14.0	263	85.9	68	22.2
Nevada	13	33.3	26	66.6	8	20.5
New Hampshire	112	24.3	348	75.6	61	13.2
New Jersey	38	11.4	293	88.5	66	19.9
New Mexico	19	10.2	166	89.7	59	31.8
New York	198	22.9	663	77.0	173	20.0
N. Carolina	475	22.3	1,646	77.6	388	18.2
North Dakota	42	9.9	381	90.0	121	28.6

EXHIBIT K

EXHIBIT K

State	Incomes exceeded 80 percent of area median		Low income Incomes did not exceed 80 percent of area median		Very low income Incomes did not exceed 50 percent of area median	
	Number	Percent	Number	Percent	Number	Percent
Ohio	134	10.3	1,160	89.6	398	30.7
Oklahoma	75	7.6	901	92.3	377	38.6
Oregon	111	15.9	586	84.0	164	23.5
Pennsylvania	256	16.8	1,260	83.1	267	17.6
Rhode Island	14	11.6	106	88.3	30	25.0
S. Carolina	128	16.1	667	83.8	226	28.4
South Dakota	52	23.4	170	76.5	27	12.1
Tennessee	114	12.5	791	87.4	324	35.8
Texas	145	8.8	1,495	91.1	598	36.4
Utah	29	10.1	257	89.8	73	25.5
Vermont	127	29.3	305	70.6	50	11.5
Virginia	149	11.2	1,178	88.7	398	29.9
Washington	78	11.7	588	88.2	173	25.9
West Virginia	46	6.4	670	93.5	273	38.1
Wisconsin	134	13.9	830	86.0	321	33.2
Wyoming	18	11.4	139	88.5	58	36.9

Source: FmHA "Use of Funds" data base.

EXHIBIT L

EXHIBIT L

INCOME NEEDED AT SELECTED MORTGAGE AMOUNTS

Mortgage amount	Minimum income needed[a]
$46,000	$11,100
44,000	10,600
42,000	10,100
40,000	9,700
38,000	9,200
36,000	8,700

[a]Borrower pays 20 percent of income for PITI and has an effective interest rate of 1 percent.

EXHIBIT M

EXHIBIT M

EFFECT OF 15 PERCENT REDUCTION IN HOUSE PRICE ON BORROWER PAYMENTS IN SELECTED COUNTIES

County/median income	Adj. family income	Percent of area median income	Current house price	Current monthly payment (PITI)	New house price (15 percent reduction)	New monthly payment (PITI)	Reduction in monthly payment
Loudon, TN	$10,650	50	$35,000	$178	$29,750	$178	$ 0
$21,300	9,600	45	"	160	"	160	0
	8,500	40	"	142	"	142	0
	7,450	35	"	141	"	124	17
Pettis, MO	10,500	50	39,500	175	33,575	175	0
$21,000	9,450	45	"	159	"	158	1
	8,400	40	"	159	"	140	19
	7,350	35	"	159	"	136	23
Lexington, SC	12,600	50	40,000	210	34,000	210	0
$25,200	11,350	45	"	189	"	189	0
	10,100	40	"	168	"	168	0
	8,800	35	"	162	"	147	15
Westmoreland, PA	13,550	50	45,000	226	38,250	226	0
$27,100	12,200	45	"	203	"	203	0
	10,850	40	"	182	"	181	1
	9,500	35	"	182	"	158	24
Pierce, WA	13,050	50	53,500	218	45,475	218	0
$26,100	11,750	45	"	216	"	196	20
	10,450	40	"	216	"	184	32
	9,150	35	"	216	"	184	32

EXHIBIT N

EXHIBIT N

INCOME NEEDED AT SELECTED MORTGAGE AMOUNTS FOR 33-AND 38-YEAR MORTGAGE PERIODS

Mortgage amount	Income needed[a] 33 years	Income needed[a] 38 years
$50,000	$12,100	$11,100
48,000	11,600	10,600
46,000	11,100	10,200
44,000	10,600	9,800
42,000	10,100	9,300
40,000	9,700	8,900
38,000	9,200	8,400
36,000	8,700	8,000
34,000	8,200	7,500
32,000	7,700	7,100
30,000	7,200	6,700

[a]Borrower pays 20 percent of income and has an effective interest rate of 1 percent.

EXHIBIT O EXHIBIT O

EFFECT OF CHANGES IN HOUSE PRICE ON BORROWER PAYMENTS, GOVERNMENT SUBSIDY, AND EFFECTIVE INTEREST RATE FOR A BORROWER WITH A $10,000 INCOME

House price	Monthly borrower payment	Monthly government subsidy	Total monthly payment	Borrowers effective interest rate
				(Percent)
$15,000	$167	$ 1	$168	11-7/8
20,000	167	56	223	8-1/8
25,000	167	112	279	5-3/4
30,000	167	168	335	3-7/8
35,000	167	224	391	2-1/2
40,000	167	280	447	1-1/4
42,000	170	300	470	1

[a]Total monthly payment for PITI with a note rate of 11-7/8 percent. (The FmHA note rate at the time of our review.) Estimates for taxes and insurance were developed using figures provided by FmHA county offices nationwide.

EXHIBIT P

EXHIBIT P

NEW HOUSES HAVING EXCESS LIVING AREA FISCAL YEAR 1984

FmHA new houses		Living area standards of other federal programs (minimum sq. ft.)		GAO living area Standards[c] (sq. feet)	FmHA houses which exceeded GAO standards[d] (Percent)
Number of bedrooms	Percent	DOD[a]	HUD[b]		
1	0.2	550	510	770	89
2	11.1	750	600	850	87
3	86.4	960	730	960	90
4 or more	2.3	1080	910	1,130	87

[a]DOD uses these minimum standards to determine the adequacy of off-base housing for its personnel.

[b]HUD uses these minimum standards for planning and designing multi-family housing units.

[c]We developed these standards in conjunction with FmHA architects and used them to assess the adequacy of living area in new houses.

[d]Approximately 89 percent of new houses financed by FmHA in FY 84 had an average of 140 square feet of excess space. Based on questionnaire results from county offices nationwide, about $2,800 could be saved by reducing these houses by this amount which could reduce costs by about $75 million annually on a new housing program of about 30,000 units.

EXHIBIT Q

EXHIBIT Q

ESTIMATED ANNUAL COST REDUCTION POTENTIAL IF MAJOR NONLIVING AREA FEATURES ARE ELIMINATED

Nonliving area feature	Percent of FmHA houses with features	Estimated cost of feature	Estimated cost reduction if features eliminated[a]
Basements	24	$3,500	$25,200,000
Garages	33	2,700	26,730,000
Carports	23	1,300	8,970,000
Total			$60,900,000

[a]Cost estimates were developed by using figures provided by FmHA county offices nationwide and homebuilders in 15 states. Savings were computed on a new housing program of 30,000 units.

EXHIBIT R

EXHIBIT R

COMPARISON OF NUMBER OF BEDROOMS IN NEW FmHA HOUSES WITH HUD USAGE STANDARDS, FISCAL YEAR 1984

Size of FmHA households		Number of bedrooms recommended by HUD[a]	Percent of households having excess bedroom capacity[b]
Number of occupants	Percent of households		
1	18	1	99
2	24	2	85
3	27	2	94
4	18	3	1
5	8	3	4
6 or more	5	4 or more	0

[a]HUD recommends that project owners or agents use these standards when assigning tenants to units in HUD-subsidized multifamily projects.

[b]Based on totals in this column, 64 percent of FmHA new houses had excess bedrooms. Using our questionnaire results from county offices nationwide, $2,000 could be saved by eliminating one bedroom per house. Assuming this figure, about $38 million (64 percent x 30,000 new houses x $2,000) in cost reduction would occur if each house having excess bedroom capacity was reduced in size by one bedroom.

 EXHIBIT S

ESTIMATED COST REDUCTION WHICH COULD RESULT FROM ELIMINATING FEATURES ON NEW HOUSES

Feature	Percent of new houses with feature in fiscal year 1983: Percent	Percent of new houses with feature in fiscal year 1983: Cost of each feature[a]	Potential cost reduction if feature eliminated
Features identified by FmHA			
Decks/patios	8.8	$ 550	$ 1,452,000
Sliding glass doors	14.8	340	1,510,000
Picture/bay windows	16.5	300	1,485,000
Air conditioning	20.1	1,340	8,080,000
1/2 bathrooms	b	800	b
Features identified by GAO			
Excess porches	3.9	540	632,000
Paved driveways	49.0	840	12,348,000
Total			$25,507,000

[a]These estimates were received in a nationwide survey of county offices and projected to a housing program of 30,000 new units.

[b]We did not obtain these estimates.

EXHIBIT T

EXHIBIT T

NUMBER OF SECTION 502 BORROWERS BY STATE HAVING LOANS WITHOUT INTEREST CREDIT AS OF AUGUST 2, 1984

State	Number of borrowers
Alabama	24,756
Alaska	616
Arizona	5,787
Arkansas	21,321
California	10,839
Colorado	4,198
Connecticut	1,739
Delaware	1,914
Florida	17,084
Georgia	23,813
Hawaii	3,154
Idaho	8,099
Illinois	10,287
Indiana	13,134
Iowa	12,298
Kansas	9,315
Kentucky	17,076
Louisiana	13,385
Maine	10,412
Maryland	6,409
Massachusetts	3,105
Michigan	13,564
Minnesota	9,228
Mississippi	34,681
Missouri	15,234
Montana	2,481
Nebraska	5,460
Nevada	669
New Hampshire	2,418
New Jersey	8,656
New Mexico	3,505
New York	19,684
North Carolina	41,647
North Dakota	4,392
Ohio	9,377
Oklahoma	17,584
Oregon	3,567
Pennsylvania	11,213
Rhode Island	552
South Carolina	24,605

EXHIBIT T

EXHIBIT T

State	Number of borrowers
South Dakota	5,546
Tennessee	28,382
Texas	25,740
Utah	5,788
Vermont	4,154
Virginia	24,893
Washington	5,074
West Virginia	10,896
Wisconsin	8,730
Wyoming	1,803
Total	568,264
Other areas	
Puerto Rico	11,219
Virgin Island	1,003
West Pacific Territories	1,301
Total	13,523
National total	581,787

EXHIBIT U

EXHIBIT U

UNPAID PRINCIPAL OF LOANS WITHOUT INTEREST CREDIT
BY NOTE INTEREST RATE AS OF AUGUST 2, 1984

Note interest rate	Unpaid principal of loans without interest credits
1.000	$ 1,049,381
1.250	12,647
3.000	4,086,715
3.018	26,306
3.250	322
4.000	68,646,485
4.875	82,988
5.000	232,824,181
5.125	107,179,001
5.250	97,817
5.375	69,679
5.750	2,412,030
5.875	19,002
6.000	2,914,908
6.125	17,745
6.250	242,852,136
6.500	14,784,680
6.750	9,680
7.000	13,214
7.125	24,001
7.200	29,821
7.250	1,500,294,313
7.500	1,217,830
7.725	19,940
7.750	61,797,391
8.000	1,841,373,337
8.100	24,530
8.125	619,382,336
8.250	590,392,059
8.500	1,249,050,554
8.625	18,016
8.700	52,266
8.750	539,820,484
9.000	966,250,791
9.250	2,442,368
9.500	69,688,223
10.000	239,796,851
10.250	36,480
10.500	2,871,925
10.750	181,665,019

EXHIBIT U

EXHIBIT U

Note interest rate	Unpaid principal of loans without interest credits
11.000	118,511,313
11.250	494,397
11.500	253,825,039
11.875	55,781,532
12.000	110,525,243
12.375	67,485
12.500	20,370,949
12.875	62,464
13.000	206,159,875
13.125	24,572,655
13.200	91,067
13.250	334,695,528
13.500	69,203,596
13.750	112,900
14.000	5,264,959
14.500	1,438,132
14.750	93,109
15.000	54,847
15.500	1,152,637
16.000	8,599,062
16.125	15,509
16.500	22,247
17.000	804,447
18.000	104,098
Total	$9,755,370,541[a]

[a]Loans having a note interest rate of 13 percent or higher total $652,384,668

Senator HECHT. Thank you for summarizing. I didn't give you an official title. U.S. General Accounting Office.

Mr. LUKE. That is correct.

Senator HECHT. Next, is Mr. Wilson, Housing Assistance Council.

STATEMENT OF HAROLD WILSON, EXECUTIVE DIRECTOR, HOUSING ASSISTANCE COUNCIL

Mr. WILSON. Mr. Chairman, my name is Harold Wilson. I'm the executive director of the Housing Assistance Council. I appreciate the opportunity to be invited here to share our experience and our expertise with this committee on the impact of the current budget packages for fiscal year 1986.

As you're well aware, today we're faced with a budget package that would completely terminate the housing programs under the Farmers Home Administration.

DRASTIC EFFECTS OF BUDGET CUTS

In my summary, let me highlight three drastic effects that we feel the budget proposals would have on the rural poor, on how the Government responds to their housing and facility needs.

The first is that the Farmers Home Administration would be eliminated as a housing provider for the rural poor. The proposed Farmers Home Administration housing budget would result in dramatic restructuring, if not the elimination, of that agency, an agency whose programs originated some 35 years ago in response to specific rural problems faced by people across our country.

These problems that were faced that many years ago are still faced by rural people today. Further, it's doubtful that the structure of FmHA direct assistance through 1,900 county offices and 270 districts and 46 State offices, could be justified if the housing programs from that agency are eliminated.

Drastic and ill-advised program cuts can at least be restored at a later date. The rural housing delivery structure that helps support these rural people in remote areas, we feel, could never be created again if they're eliminated by this Congress this year.

Even though there is still need for improvement and reform in the programs, and we support very strongly and have worked with Farmers Home Administration to try to implement many of the provisions cited by the General Accounting Office, the programs have worked. Let me give you some examples of how the programs have worked.

Farmers Home Administration should be credited with replacing a large portion of inadequate units occupied by low-income households, through more than 1 million loans for home ownership and repair. Simultaneously, the number of rural households living in substandard housing conditions has declined by more than 1 million over the last 10 years.

We feel that much of that decline is a result of the work of the Farmers Home Administration.

Farmers Home Administration financed housing costs less; it's as simple as that. The average household income for those who received loans in 1984 was, as has been indicated, a little over $11,000. Farmers Home Administration has provided housing for

more than 2 million families since the program began, predominantly in the form of loans.

And I think it's important to point out, Mr. Chairman, we're talking here about a program that makes loans, loans which are paid back. The subsidy that is provided by the Federal Government is the difference between the interest that is subsidized and the interest that is paid by the families. These are loans to people.

The Farmers Home Rental Programs have also successfully housed the poor. For example, the average tenant income for section 515 financed housing is $7,742 for the average tenant income house. Of those tenants, 73.2 percent had an average income of only $5,900. The Farmers Home Administration Rental Program has served the poor.

The second major impact that the proposed budget will have is the transfer of the rural programs to the Department of Housing and Urban Development. This transfer represents a movement of responsibility of the Nation's rural housing activity from a rural housing agency concerned with rural development activities, covering a large spectrum of activities in rural development, not just housing, to a department that we feel is ill-equipped with either the programs or the structure to address rural problems.

Our 14 years of experience in working with rural housing needs indicates that the peculiar needs and problems of rural communities cannot be adequately addressed by urban-designed and operated programs. The delivery mechanism is one simple example that can be offered.

County offices provide a place where people in remote rural communities can go to have their rural housing needs addressed. I don't know what will happen, for instance, in Mississippi, Alabama, or in Arizona when people have to drive for hundreds of miles to a HUD insuring office to receive the same kinds of benefits.

The final drastic effect that will take place for rural families if this budget package goes through——

Senator HECHT. Excuse me, can you summarize? Your 5 minutes is up.

POOR WILL NOT BE SERVED

Mr. WILSON. Yes, this is my final point, Mr. Chairman.

The poor simply will not be served. Even though the need for continuation of Farmers Home Administration housing assistance is graphically apparent to those of us who work in rural communities, the Federal Government's own data illustrates the need for Farmers Home Administration's continuance at adequate funding levels.

As an example, more than 2.1 million occupied rural housing units are still substandard by census definition, and as our testimony indicates, there are other much more drastic situations of rural people.

As an example, more than 1.3 million rural tenants with incomes of less than $10,000 pay more than 35 percent of their income for rents. In terms of special housing needs, there are over 700,000 of farmworker housing that are needed today.

In conclusion, Mr. Chairman, shelter is not an expendable item that can be cut back on or eliminated when the times are difficult. It is an essential item required to support human life and has a direct bearing on the creative and productive potential of people.

A proposal which would eliminate programs of assistance that have proven successful for years in raising the quality of life for the rural poor and which at the same time offers no realistic alternatives is questionable on both moral and economic grounds, and it reflects a policy that we feel is shortsighted.

We would be very pleased, Mr. Chairman, if our complete remarks would be included in the record.

I would also like to submit for the record a publication entitled "Why Farmers Home Administration [FmHA] Programs Must Be Preserved." This analysis provides excellent detailed information regarding the importance of FmHA rural housing programs.

Senator HECHT. They will be. Thank you very much.

[The complete prepared statement follows:]

TESTIMONY OF

HAROLD O. WILSON

EXECUTIVE DIRECTOR

HOUSING ASSISTANCE COUNCIL

Mr. Chairman and members of the Subcommittee on Housing and Urban Affairs, I am Harold O. Wilson, Executive Director of the Housing Assistance Council. The Housing Assistance Council (HAC) is a national nonprofit housing organization which seeks to assist in the provision of housing for low-income families by providing technical assistance and seed money loan funds to rural development organizations. For 14 years, HAC has examined rural housing need and monitored the federal government's efforts to meet that need.

I am here today to express my strong concern over the future of the Farmers Home Administration's (FmHA) rural housing assistance for low-income families. As you know, the proposed budget for FY 1986 and the pending Senate budget bill both presuppose the elimination of the FmHA housing programs. We firmly believe that if such proposals are adopted, the ultimate victims will be the poor and ill-housed citizens of rural America.

Mr. Chairman, if there is one point that I am able to convey before this Committee, let it be this. The FmHA rural housing programs are a vital resource for rural America. The assistance provided by the agency is irreplaceable. Any actions, be they in the Authorizing, Appropriations, or Budget Committees, should only be taken upon a very careful analysis of the benefits this nation continues to reap from these programs.

The following points summarize our arguments in support of the continued existence of the FmHA rural housing programs:

i) Rural America continues to house a disproportionate share of our nation's poor. The 1980 Census identified 3.5 million poverty-level households in communities eligible for FmHA service. Rural poverty is getting worse; in 1983, the nonmetropolitan poverty rate was 18.3 percent, up sharply from 17.8 percent in 1982.

ii) Over 2.2 million units of rural housing in the FmHA service area are substandard.

iii) The need for comprehensive FmHA services continues unabated. In addition to the housing need, pollution of existing rural water systems has reached alarming proportions, and small farmers, as a class, are in desperate straits.

iv) The existing housing stock in rural areas is insufficient. Rural need cannot be met solely by local preservation efforts or by some modest and future voucher assistance program, because there is neither enough housing suitable for rehabilitation nor enough rental stock.

v) FmHA-financed housing is "bargain-priced". In 1984, existing units financed by FmHA cost 54.2 percent of the national median and new units financed by FmHA cost only 39 percent of the national average.

vi) The balanced FmHA homeownership/rental resources programs constitute a common sense approach toward meeting the housing need. For example, it costs less to subsidize those low-income families who can afford FmHA homeownership than to provide them with rental subsidies. On the other hand, the FmHA rental program permits the rental option for the poor communities which often have no decent rental housing stock.

vii) FmHA has a strong performance record.

viii) There is no viable decent housing alternative for the rural poor. A private housing credit delivery system for low-income families does not exist in rural America. With its 1,937 county, 270 district, and 46 state offices, FmHA has in place a delivery network well-suited to the peculiar problems associated with a dispersed population. No other agency possesses this type of delivery system.

The need for continued rural housing assistance is clear; and the need for continued FmHA housing assistance is obvious from a review of the Agency's achievements.

Over the past fifteen (15) years, this nation has witnessed dramatic progress in improving the quality of life for families in rural communities. While by no means eliminating poverty, substandard housing, or unemployment, FmHA assistance has provided many low-income people with an opportunity to achieve a better way of life. Over one million units of substandard housing in rural areas were replaced during the 1970s.

From 1970 to 1980, FmHA made over 1.2 million single family housing loans to rural families. Full implementation of the interest subsidy program during this period allowed service to low-income families unable to afford high mortgage rates. For the first time in their lives, these families had a chance at the American dream.

During the same period, FmHA made over 11,000 Section 515 loans, which produced 186,250 units of rental housing. In addition, 11,245 units of housing for migrant and seasonal farmworkers were produced. Rural low income families were further helped by the rental assistance program, which provided financial assistance to reduce the rental payments of qualified tenants.

FmHA and other federal resources were not adequate, however, to eliminate overcrowded, deficient housing occupied by low-income households, or affordability problems in rural areas.

In 1981, three-fifths of nonmetro very low-income households lived in housing defined by HUD as "having problems" - overcrowded, structurally deficient, and/or with high rent burden. The number and proportion of very low-income households with such housing problems increased since 1975, from 55.3 percent and 3.8 million households to 59.7 percent and 4.5 million households.

According to the Census, rural areas in 1980 contained 1.7 million occupied units which lacked plumbing or were overcrowded; i.e., which are deemed substandard by conventional measures. Within FmHA service areas, there are still 2.2 million units which are overcrowded or lack complete plumbing. According to more detailed data provided by the Annual Housing Survey, nearly a million rural substandard units were occupied by low-income households (with annual incomes of less than $9,000).

By HUD's criteria for structural quality - the most valid measures now in use - in 1981 there were 3.4 million occupied nonmetro units which were physically inadequate. (HUD has not published equivalent data for rural areas.) They constituted 13 percent of the nonmetro occupied housing. Of these, 1.4 million were severely inadequate.

Worst case households are those which are both poor and in inadequate housing. There were 1.9 million very low-income nonmetro households in inadequate housing as defined by HUD. One million were in severely deficient units. Twenty-two percent of the very low-income owners and 29% of the very low-income renters in nonmetro areas were in inadequate housing.

In addition, the Census reports 1.2 million rural households live in mobile homes manufactured before 1975; i.e., before a federal standard for mobile home safety and construction quality was implemented. More than half of the occupants of pre-standard mobile homes are low-income households.

These stark facts illustrate the continued need for new housing and housing rehabilitation.

TABLE I: Occupied Deficient Units in 1981

	Metro (Millions)	Metro (% Total)	Nonmetro (Millions)	Nonmetro (% Total)
Total Occupied	56.7	100.0%	26.5	100.0%
Physically Inadequate	4.3	7.5%	3.4	13.0%
Severely Inadequate	1.5	2.7%	1.4	5.5%
Owners				
Occupied	34.8	100.0%	19.6	100.0%
Physically Inadequate	1.5	4.2%	2.0	10.1%
Severely Inadequate	.4	1.2%	.8	4.0%
Renters				
Occupied	22.0	100.0%	6.9	100.0%
Physically Inadequate	2.8	12.7%	1.5	21.2%
Severely Inadequate	1.1	5.1%	.7	9.6%

Inadequate Units Occupied by Very Low-Income Households

	Metro (Millions)	Metro (% Total)	Nonmetro (Millions)	Nonmetro (% Total)
Total Occupied	14.3	100.0%	7.5	100.0%
Physically Inadequate	2.0	14.2%	1.9	25.0%
Severely Inadequate	.8	5.8%	1.0	13.8%
Owners	5.6	100.0%	4.4	100.0%
Physically Inadequate	.5	17.2%	1.0	22.0%
Severely Inadequate	.2	3.2%	.6	12.6%
Renters	8.8	100.0%	3.0	100.0%
Physically Inadequate	1.5	17.2%	.9	28.9%
Severely Inadequate	.7	7.5%	.5	15.5%

Source: Department of Housing and Urban Development, Office of Policy Development and Research, "Attaining the Housing Goal?", by Iredia Irby, July, 1984.

The composite figure for overcrowded as well as deficient units occupied by very low-income nonmetro households is 2.1 million units. Thus, by accepted standards for housing quality, there is a need for approximately 2 million new or upgraded units to house rural low-income households. Because nonmetro poverty has increased since these figures were reported (1980-81), it is likely that the current figure would be higher.

In 1981, nearly $15,000 was needed by a nonmetro family of four to meet annual living costs included in the "lower budget" established by the Bureau of Labor Statistics. In 1984, an estimated $17,000 was needed for nonmetro renter-occupied households, and $20,000 for owner-occupied households. (See appendices for details.) The lower budget assumes that less than a fourth of household income is spent on shelter.

Unfortunately, for nonmetro households of all incomes, gross rent as a percentage of income increased from 19% in 1970 to 25% in 1980; i.e., rents increased far faster than did income. (USDA) Mobile home rent consumed a larger share of rural incomes - 26%. The mobile home rent burden was greatest for minorities and poverty-level households: 30% for rural black households, over 50% for poverty-level households. (1980 Census)

The 1981 Annual Housing Survey reports that 2.6 million nonmetro households with incomes of less than $10,000 spent more than 35% on shelter costs. Most of these households earned less than $7,000. Over a million spent more than 60% of their incomes on housing. Over half of these had household incomes of under $3,000, and thus had less than $1,200 remaining with which to cover food, clothing, and other household expenses for the year. In the FmHA service areas alone, 1,309,312 tenant families have incomes of $9,999 or less and pay more than 35% of income for rent. Of these families, 831,592 (63.5%) have incomes of less than $5,000.

These households had fewer than four members, on the average. However, even using the Bureau of Labor Statistics (BLS) nonmetro lower living budget for retired couples, they would not have enough left after meeting shelter costs to afford basic expenses.

During December 1984, FmHA multifamily housing staff estimated that 138,750, or 44.8%, of the tenant households in Section 515 financed housing experienced a rent overburden.

Thus, in addition to poverty households now receiving assistance, as many as 2.6 million nonmetro households need assistance to cover shelter costs.

Rural needs include those of special populations for which remedy is difficult, even when government actively seeks to fund housing assistance. Migrant farmworkers are a case in point. A 1980 survey by the Interamerica Research Associates, under

contract to the Farmers Home Administration, found that 750,000 new or substantially rehabbed units for migrant farmworkers were needed.

The 1986 budget provides funding for 4,550 units of rental assistance both for renewal of expiring contracts and for servicing purposes. Unfortunately there are 15,000 units due to expire in 1986 followed by 10,500, 11,500, 12,000 and 13,000 units in fiscal years 1987 - 1990 respectively.

Many low-income rural homeowners need assistance to improve their water and/or waste disposal facilities. According to a survey conducted by Cornell University for the U.S. Environmental Protection Agency, two thirds of rural households in 1982 had unacceptably contaminated water, with coliform bacteria the most common contaminant. The Census of Housing reports that in 1980 nearly 2 million rural households relied on dug (not drilled) wells and undefined sources of water.

Nearly 16 million relied on septic tanks or cesspools for sewage disposal. According to a recent Soil Conservation Service study, many of these were in areas deemed not suitable for septic fields, and thus contributed to water contamination. Undefined means of sewage disposal were used by 1.3 million rural households. One and a half million rural households had either no bathroom or only a "half bath."

Thus, the Census indicates at least two million rural households need upgraded water and waste disposal facilities. The EPA study indicates a far higher number, perhaps as many as 14 million households, need facilities to eliminate water pollution, particularly contamination by human waste.

The Administration's budget implies that rural housing needs will be financed by the private sector, but proposes that government assistance will be provided by the Department of Housing and Urban Development (HUD). There are serious, if not fatal, flaws in the proposal which would replace direct credit with a guaranteed lending system which has not previously worked in rural areas. A viable guaranteed housing program is dependent on credit institutions geared and able to function as mortgage lenders.

During 1984, there were more bank failures than in any year since 1938, and most of those failures were in rural areas. Traditionally conservative, rural banks have been increasingly constrained by farm loan delinquencies. According to a recent study by the Economic Research Service of USDA, banks in agricultural areas have been particularly vulnerable to failure and other financial setbacks in recent years. Banks with agricultural portfolios are a considerable rural credit resource; nearly 1,300 of the 8,000 nonmetro banks had over half of their loan funds in agriculture. The jeopardy in which these banks are placed encourages them to collect from delinquent borrowers,

contributing to a level of farm and home sales, auctions, and foreclosures exceeding any since the Great Depression.

The availability of private credit means little to low income families, who require some form of subsidy to permit homeownership, and the HUD ownership programs which are to be continued in 1988 are not subsidized. Table IV illustrates the percentage of income required to carry a very modest mortgage, taxes and insurance.

TABLE II: Percentages of gross income required to carry principal, interest, taxes and insurance (PITI) for a modest home with a 30 year 10.5 percent mortgage.

Mortgage -	$40,000
Down Payment -	4,392
Taxes -	400
Insurance -	140
PITI -	$4,932

INCOME	PERCENTAGE FOR PITI
$15,000	32.9%
13,500	36.5%
10,000	49.3%
8.500	58.0%
7,000	70.5%

The above data are not shelter costs. Utility and maintenance costs are not included.

We recently examined data developed by the National Association of Realtors on median priced existing housing sales and minimum qualifying income; additionally, we looked at average new home cost and income data developed by the National Association of Homebuilders. These data illustrate who homebuyers were since 1974. Below, the 1983 data are contrasted to that of the FmHA 502 program:

Median price existing housing -	$70,300
Average price new housing -	$89,800
Average price FmHA housing -	$37,743

There is ample evidence to conclude that sufficient housing credit is lacking in rural areas, and where that credit is available it serves a higher-income clientele. The need for credit and assistance for low- and very low-income households has already been documented. Therefore, termination of FmHA housing programs will effectively eliminate any possibility of adequate housing for several million rural families.

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The problems facing rural tenants and the budget solutions proposed to meet these problems yield additional cause for concern. Under the budget rural areas presumably will be the planned beneficiaries of half of HUD's 97,500 assisted units, available beginning in 1988. Even this concession to rural need must be examined carefully and questioned. Because HUD plans to use housing vouchers as its future assisted housing program several questions must be asked: Are there enough suitable rental units available? Who will finance the new and replacement rental units needed in rural areas? If financed, will vouchers make new units affordable to low-income people?

HAC has long supported the FmHA rural housing programs. Since the 1960s these programs have been shaped to meet the unique requirements of rural America. The information and data in this report and appendices indicate a continuing and unmet need for services for the rural poor. The Farmers Home Administration programs and delivery system are best equipped to deal with this need.

The budget proposal leaves unanswered how the housing needs of the poor will be met. Even if private credit were universally available in rural areas, low- and very low-income families could not afford to use it. State and local housing finance efforts utilize tax-exempt offerings to reach families with incomes lower than those of families who can afford private credit, but these local programs do not serve the poor or the near poor, unless supplemented with deep federal subsidies. The expectations, associated with current budget proposals, that everyone would assume a fair share of the discomfort yielded by the cuts, is disingenuous at best. The budget proposals terminate the FmHA rural housing and community development programs, and in so doing, exacerbate an already impossible situation for the rural poor.

Shelter is not an expendable item that can be cut back or eliminated when times are difficult. It is an essential element required for the support of human life, an element that also has a direct bearing on the creative and productive potential of people. A proposal which would eliminate programs of assistance that have proven successful for years in raising the quality of life for the rural poor, but which at the same time offers no realistic alternatives, is questionable on both moral and economic grounds. It reflects a policy that is shortsighted at best.

Rather than being eliminated or cut beyond useful capacity, the FmHA programs should be reformed to assure their efficiency and increase their ability to serve the poor. The economic and social problems of rural communities call for creative solutions, not the burial of programs created to address exactly the problems we face in rural America today.

We therefore urge the members of this Subcommittee to keep faith with the families of rural America, and to preserve and continue the successful rural housing programs of the FmHA as we know them.

Errata for 'Why Farmers Home Administration Programs Must Be Preserved'

This HAC Viewpoints was completed in January, 1985 and made assumptions based on White House - OMB budget discussion numbers. Very slight changes are noted herein to reflect the actual budget released on February 4, 1985. The Administration's intent to terminate the rural housing programs is unchanged.

Page 2 - The budget includes $50 million for 4550 units of rental assistance (RAP) to be used soley to extend expiring contracts and for servicing. It should be noced that 25,500 contracts will need renewal in 1986 and 1987, 15,500 of which are in 1986. FmHA estimates that 90,650 very low income tenants in agency financed units are experiencing rent overburden (the average tenant in this category pays 52% of income for shelter).

Page 12 Conclusion - The 1986 budget does propose that rural areas be served by HUD, beginning in 1988. This will include a 50% share of 100,000 units of all assisted housing (Section 8, subsidized housing, housing construction). The method for accomplishing this is ill defined, and FmHA housing staff are totally unaware of any plans for implementation. More importantly, history demonstrates that most HUD programs are not well delivered in rural areas. The result is still an abandonment of a proven delivery mechanism for that of private

banks and HUD, both of which have not adequately served low and very low-income rural americans in the past. On January 4, 1985 the Housing Affairs Letter reported that HUD objected to 50% of its assisted units being earmarked for rural areas. They note that their future mechanism will be vouchers and cite the lack of suitable rental housing in rural areas.

Appendix No. 1

For 1986 column: change 0 to $30 for Section 502, 0 to 50 for Section 521 Rental Assistance and total to $80.

NOTE: the $30 million for Section 502 loans is to be used solely for essential repairs to housing of existing FmHA borrowers.

Appendix No. 2 - 2 of 2

No additional units are added in FY 1986, but a figure of 4550 would be used for rental assistance.

HAC VIEWPOINTS

Published by the Housing Assistance Council, Inc., a nonprofit organization dealing with rural low-income housing needs.

Why Farmers Home Administration (FmHA) Programs Must Be Preserved

The Case for FmHA's Rural Housing, Community Facility and Farm Programs

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The Housing Assistance Council (HAC) is a thirteen-year-old nonprofit corporation which supports the development of rural low- and moderate-income housing nationwide, with special emphasis on minorities and the rural poor. HAC provides technical housing services, seed money loans from a revolving loan fund, housing program and policy assistance, research and demonstration projects, and training and information services.

Why Farmers Home Administration (FmHA) Programs Must be Preserved

THE CASE FOR FMHA'S RURAL HOUSING, COMMUNITY FACILITIES AND FARM PROGRAMS

Preliminary projections made by the Office of Management and Budget (OMB) indicate that the Administration will seek termination for virtually all FmHA programs through its budget request for 1986. In this paper, the Housing Assistance Council (HAC) demonstrates the severe impact such action will have on he poor and cites reasons why FmHA's rural housing programs must be maintained if the poor are to be housed adequately. Although HAC concentrates primarily on FmHA housing and community facilities programs, it recognizes the vital role of FmHA farm programs in the lives of many hardworking rural Americans. For that reason, a short section on FmHA Farm Loan Programs, many of which are slated for termination by OMB, is included at the end of this report.

HAC has been both a critic and defender of FmHA. It has admonished the agency for policy excesses and for failure to use or properly use all appropriated funds, but it has also recognized FmHA achievements and their importance to rural America. The agency should be improved by reform, not abolished.

This paper provides information on the reasons why the 1985 budget request is both unfair and unsound. The basic argument against the OMB proposals can be simply outlined as follows:

(1) Budget costs should be assessed and measured in real and reasonable terms. It is not prudent to consider a loan, which is subject to repayment, in the same manner as a direct federal expenditure or grant.

(2) FmHA is a lender of last resort. Many rural banks are in grave financial trouble (see Appendix 10), and eliminating FmHA programs will compound an already difficult credit situation.

(3) The need for FmHA services continues, unabated. Rural housing overcrowding increased between 1970 and 1980; pollution of existing rural water systems has reached alarming proportions; and small farmers, as a class, are in desperate straits.

(4) The housing stock in rural areas is insufficient. Rural need cannot be met solely by local preservation efforts or by some modest and future voucher assistance program, because there is neither enough housing suitable for rehabilitation nor enough rental stock.

(5) FmHA-financed housing is "bargain priced". In 1984, existing units financed by FmHA cost 54.2% of the national median and new units financed by FmHA cost only 39% of the national average. (See Appendix 3)

(6) The FmHA home ownership program is a common sense approach toward meeting part of the housing need. It costs less to subsidize those who can afford FmHA home ownership than to provide the same family with rental subsidies.

(7) FmHA has a good performance record. We examine it in this paper and highlight it in the appendices.

(8) There is no viable alternative for the rural poor. A viable private housing credit delivery system for low income families does not exist in rural America. FmHA has in place a delivery network, well-suited to the peculiar problems associated with a dispersed population, of 1937 county, 270 district, and 46 state offices.

The Deputy Under Secretary of Agriculture for Small Towns and Rural Development recently advised a delegation of rural housing officials that rural areas have not benefitted from the national economic recovery to the extent experienced nationally and that U.S.D.A. has cited this in an appeal of the 1986 budget levels to OMB Director Stockman.

Enactment of the Administration's budget would be tantamount to abandonment of the rural poor in need of housing, including those now in FmHA subsidized housing. All FmHA housing programs providing new services will be terminated in 1986, but existing rental assistance contracts will expire over a period of years. An estimated 25,500 contracts for low-income tenants will expire during 1986 and 1987, without any provision for renewal or alternative subsidy. How will these low-income tenants be housed? Where is the safety net for the nation's rural needy if these programs are eliminated?

RURAL NEEDS

Housing

While the number of units lacking plumbing in rural areas declined over the 1970's, the number of overcrowded units increased (see Table 1). Annual Housing Surveys show that the number of uncomfortably cold and deficient housing units occupied by low- and very low-income nonmetro households has also increased in recent years. Moreover, unsanitary water is an increasing problem in rural areas.

FmHA should be credited with replacing a large proportion of inadequate units occupied by low-income households. FmHA made more than 1,000,000 loans for home ownership and repair. Simultaneously, the number of rural households living in substandard units declined by more than a million.

Over the 1970s FmHA financed 186,250 rental units and 11,245 units for migrant and seasonal farmworkers. Of the 186,250 FmHA-financed rental units, 41,598 (22.3%) received FmHA rental assistance. Rental assistance was available only for the last two years of the decade, but during that brief timespan it was used for 54% of those units financed.

FmHA resources were not adequate, however, to stem the growth of overcrowded, deficient housing occupied by low-income households, or affordability problems in rural areas.

For example, in 1981, three-fifths of nonmetro very low-income households lived in housing defined by HUD as "having problems" - overcrowded, structurally deficient, and/or with high rent burden. Worse, the number and proportion of very low-income households with such housing problems had increased since 1975, from 55.3% and 3.8 million households to 59.7% and 4.5 million households.

The figures which follow are taken from the Census or from federal studies. They are intended to cover the range of criteria now in use for housing need, and the range of geographic designations which fall under the term "rural". Here, "rural" means communities of fewer than 2,500 residents; "nonmetro" means counties outside Metropolitan Statistical Areas (MSAs) and with cities of fewer than 50,000 residents; and FmHA Service Areas include open country, communities with up to 10,000 residents that are rural in character, and communities with up to 20,000 residents that are rural in character and are outside MSAs.

TABLE I: Census comparison of housing stock in rural areas and places of 2,500 - 10,000 population outside urbanized areas

ITEM	1970	1980	CHANGE
Occupied units without complete plumbing	2,421,549	1,000,690	-1,420,849
Occupied units overcrowded	668,863	972,684	+103,821
Total substandard units	3,920,412	1,973,374(a)	-1,317,083

(a) Note: The appendices provide data developed for the actual FmHA service area, from census tapes, by the Economic Research Service, USDA.

Need For New or Replacement Housing

According to the Census, rural areas alone in 1980 contained 1.7 million occupied units which lacked plumbing or were overcrowded: i.e., which are deemed substandard by conventional measures. Within FmHA Service Areas, there are still 2.2 million units which are overcrowded or lack complete plumbing. According to more detailed data provided by the Annual Housing Survey, nearly a million rural substandard units were occupied by low-income households (with annual incomes of less than $9,000).

By HUD's criteria for structural quality - the most valid measures now in use - in 1981 there were 3.4 million occupied nonmetro units which were physically inadequate. (HUD has not published equivalent data for rural areas.) They constituted 13% of the nonmetro occupied housing. Of these, 1.4 million were severely inadequate.

Worst case households are those which are both poor and in inadequate housing. There were 1.9 million very low-income nonmetro households in inadequate housing as defined by HUD. One million were in severely deficient units. Twenty-two percent of the very low-income owners and 29% of the very low-income renters in nonmetro areas were in inadequate housing.

In addition, the Census reports 1.2 million rural households live in mobile homes manufactured before 1975; i.e., before a federal standard for mobile home safety and construction quality was implemented. More than half of the occupants of pre-standard mobile homes are low-income households.

TABLE II: Occupied Deficient Units in 1981

	Metro (Millions)	Metro (% Total)	Nonmetro (Millions)	Nonmetro (% Total)
Total Occupied	56.7	100.0%	26.5	100.0%
Physically Inadequate	4.3	7.5%	3.4	13.0%
Severely Inadequate	1.5	2.7%	1.4	5.5%
Owners				
Occupied	34.8	100.0%	19.6	100.0%
Physically Inadequate	1.5	4.2%	2.0	10.1%
Severely Inadequate	.4	1.2%	.8	4.0%
Renters				
Occupied	22.0	100.0%	6.9	100.0%
Physically Inadequate	2.8	12.7%	1.5	21.2%
Severely Inadequate	1.1	5.1%	.7	9.6%

Inadequate Units Occupied by Very Low-Income Households

	Metro (Millions)	Metro (% Total)	Nonmetro (Millions)	Nonmetro (% Total)
Total Occupied	14.3	100.0%	7.5	100.0%
Physically Inadequate	2.0	14.2%	1.9	25.0%
Severely Inadequate	.8	5.8%	1.0	13.8%
Owners	5.6	100.0%	4.4	100.0%
Physically Inadequate	.5	17.2%	1.0	22.0%
Severely Inadequate	.2	3.2%	.6	12.6%
Renters	8.8	100.0%	3.0	100.0%
Physically Inadequate	1.5	17.2%	.9	28.9%
Severely Inadequate	.7	7.5%	.5	15.5%

Source: Department of Housing and Urban Development, Office of Policy Development and Research, "Attaining the Housing Goal?", by Iredia Irby, July, 1984.

The composite figure for overcrowded as well as deficient units occupied by very low-income nonmetro households is 2.1 million units. **Thus, by accepted standards for housing quality, there is a need for approximately 2 million new or upgraded units to house rural low-income households. Because nonmetro poverty has increased since these figures were reported (1980-81), it is likely that the current figure would be higher.**

Need For Mortgage and Rental Assistance

In 1981, nearly $15,000 was needed by a nonmetro family of four to meet annual living costs included in the "lower budget" established by the Bureau of Labor Statistics. An estimated $17,000 was needed in 1984, for nonmetro renter households; $20,000 for owner households. (See attached paper for details.) The lower budget assumes that less than a fourth of household income is spent on shelter.

Unfortunately, for nonmetro households of all incomes, gross rent as a percentage of income has increased from 19% in 1970 to 25% in 1980; i.e., rents increased far faster than did income. (USDA) Mobile home rent consumed a larger share of rural incomes - 26%. The mobile home rent burden was greatest for minorities and poverty-level households: 30% for rural black households, over 50% for poverty-level households. (1980 Census)

Worse, the 1981 Annual Housing Survey reports that 2.6 million nonmetro households with incomes of less than $10,000 spent more than 35% on shelter costs. Most of these households earned less than $7,000. Over a million spent more than 60% of their incomes on housing. Over half of these had household incomes of under $3,000, and thus had less than $1,200 remaining with which to cover food, clothing, and other household expenses for the year.

These households had fewer than four members, on the average. However, even using the BLS nonmetro lower living budget for retired couples, they would not have enough left after meeting shelter costs to afford basic expenses.

In the FmHA service areas alone, 1,309,312 tenant families have incomes of $9,999 or less and pay more than 35% of income for rent. Of these families, 831,592 (63.5%) have incomes of less than $5,000.

During December, 1984 FmHA multifamily housing staff estimated that 138,750, or 44.8%, of the tenant households in Section 515 financed housing experienced a rent overburden.

Thus, in addition to poverty households now receiving assistance, as many as 2.6 million nonmetro households need assistance to cover shelter costs.

Need For Seasonal Housing Subsidies

A 1980 survey by the Interamerica Research Associates, under contract to the Farmers Home Administration, found that **750,000 new or substantially rehabbed units for migrant farmworkers were needed.**

Need For Assistance to the Homeless

Under the strictest definition of homelessness - lack of secure shelter from the elements - the rural homeless include migrant workers, family members fleeing abuse, and households evicted from rental or mortgaged properties. The number of households homeless because of all foreclosure actions is unknown, but recent figures indicate that FmHA borrowers are reconveying their homes to the agency at a rate of 16,000 units a year.

Currently, there are at least 350,000 rural households which may be considered potentially homeless, either because they have been unable to meet payments on FmHA housing and farm loans without moratorium assistance, or because their FmHA rental assistance contracts are due to lapse in 1986-87. In other words, the loss of flexible FmHA resources will directly boost the rural homeless population by 350,000 households.

Should the criteria for potential homelessness be broadened to include overcrowded households, the tally would increase by a million households.

Need For Sanitary Water and Waste Disposal Facilities

According to a survey conducted by Cornell University for the U.S. Environmental Protection Agency, two thirds of rural households in 1982 had unacceptably contaminated water, with coliform bacteria the most common contaminant.

The Census of housing reports that in 1980 nearly 2 million rural households relied on dug (not drilled) wells and undefined sources of water.

Nearly 16 million relied on septic tanks or cesspools for sewage disposal. According to a recent study (SCS Engineer), many of these were in areas deemed not suitable for septic fields, and thus contributed to water contamination.

Undefined means of sewage disposal were used by 1.3 million rural households. One and a half million rural households had either no bathroom or only a "half bath."

Thus, the Census indicates at least two million rural households need upgraded water and waste disposal facilities. The EPA study indicates a far higher number, perhaps as many as 14 million households, need facilities to eliminate water pollution, particularly contamination by human waste.

Although underfunded, FmHA programs provided water and waste disposal loans and grants to 24,000 communities over the 1970s. The Administration proposal to eliminate these resources defies any logic which would take into account the alarming state of rural water and waste disposal conditions amply documented by the federal government itself.

Need For Rural Credit

In general, nonmetro households in search of mortgage credit encounter higher interest rates and shorter mortgage terms than are available in metro areas. While these may not be insurmountable obstacles to middle-income rural households, low-income households clearly either cannot afford the market rate loans or, as a HAC survey shows, will not be accepted as credit risks by rural lenders.

Private credit traditionally serves the housing needs of those with the ability to acquire higher cost housing. The difference between the minimum qualifying income for the median priced existing house and the FmHA average income was $6,084 in 1977. The difference increased to $16,957 in 1984. The average mortgage rate for existing homes in 1984 was 12.4 percent. The average FmHA borrower paid approximately 3.0%. The median priced existing house in 1984 was $72,730, whereas the FmHA financed existing house was $39,419.

During 1984 there were more bank failures than in any year since 1938, and most of those failures were in rural areas. Traditionally conservative, rural banks have been increasingly constrained by farm loan delinquencies. According to a recent study by the Economic Research Service of USDA, banks in agricultural areas have been particularly vulnerable to failure and other financial setbacks in recent years. Banks with agricultural portfolios are a considerable rural credit resource; nearly 1,300 of the 8,000 nonmetro banks had over half of their loan funds in agriculture. The jeopardy in which these banks are placed encourages them to collect from delinquent borrowers, contributing to a level of farm and home sales, auctions, and foreclosures exceeding any since the Great Depression.

December, 1984 research by the Federal Home Loan Bank Board identified 523 counties in the United States which have no savings and loan or branch office of a savings and loan. This represents 16.7% of the 3,137 counties in the country. Most of these counties are rural. In fact, the average population in the 523 counties is 10,176.

Most rural counties do have banks, but these are increasingly branches of institutions headquartered in urban areas. The USDA study also suggests that better integration of rural and urban financial markets "may mean that chronically depressed rural areas will be hurt the most...." Former

Secretary of Agriculture Bob Bergland recently noted that correspondent banking by rural banks means that most of the local deposits will be used elsewhere.

Thus, there is ample evidence to conclude that sufficient housing credit is lacking in rural areas, and where that credit is available it serves a higher income clientele. The need for credit and assistance for low and very low-income households has already been documented. Therefore, termination of FmHA housing programs will effectively eliminate any possibility of adequate housing for several million rural families.

Summary of Rural Needs

To summarize, at least 4.5 million very low-income nonmetro households require housing assistance, including at least two million new or substantially rehabbed permanent units. Another 750,000 seasonal units are needed to house migratory farmworkers. Nearly 3 million rural households are in desperate need of sanitary water facilities. The number of those using undefined water sources other than wells or public systems has actually increased since 1970.

There is no evidence that the private sector can or will meet these needs without federal assistance. Private credit on affordable terms is unavailable to low-income rural households and communities. Migrant farmworker housing, almost entirely within the private sector domain, has remained consistently deplorable. Rural communities simply do not have the tax base to solve their increasingly severe water and waste disposal problems.

The housing, sanitation, infrastructure, and credit needs of rural areas could be met, however, by continuing and expanding existing FmHA housing and community facilities programs. As in the past, the network of FmHA field offices would be key to the delivery of program resources to rural areas.

<u>FmHA Housing Performance</u>

A year by year record of performance by FmHA programs which finance housing construction, purchase or repair appears as Appendix 13 to this report. Some facts which are worthy of note follow:

* There are currently 310,000 FmHA Section 515 financed and occupied units. This is 92.9% of the 333,719 units obligated since inception.

* 154,250 tenant families (49.8%) receive deep subsidy assistance.
  - 106,000 FmHA Rental Assistance
  - 48,000 HUD Section 8
  - 1,750 State Rental Assistance

* Despite an average family income, as of August 30, 1984, of $7,742, more than one half of all tenants do not receive supplemental subsidy assistance. Of these tenants, 73.2% had an average income of $5,964.

* The average income of 1984 Section 502 homeownership borrowers was $11,649. While this is $1,449 above the poverty line, it is remarkable given the overall costs of homeownership. The minimum qualifying income for the median priced existing American house ($72,730) in 1984 was $29,635. Appendix 7 provides data reference to Section 502 loans for new housing from 1970 through 1984.

FmHA has been criticized for its high level of delinquency. However, higher delinquency in the FmHA rural housing programs is to be expected given the incomes of families served and the fluctuating employment and economic situation which that income class encounters. Moreover, a review of this delinquency reveals that its extent is well within manageable proportions. In fact, the government's financial interest is in remarkably good condition.

TABLE 3: Dollar Delinquency in the FmHA Section 502 and Section 515 Programs (a)

Program	No. Active Borrowers	Outstanding Principal	Outstanding Principal Delinquent	Dollar Delinquency Percentage
502	982,889	$22,085,192,000	$211,806,000	0.96%
515	10,478	5,701,145,000	10,784,000	0.19%
Combined	993,367	$27,786,337,000	$222,590,000	0.80%

(a) The September 30, 1984 data for these two programs represent 99.3% of the total FmHA rural housing portfolio.

Some FmHA performance has received mixed reaction. HAC deplores the fact that not all available funds have been utilized, despite the obvious need and a backlog of applications. HAC believes FmHA's current emphasis on loan servicing (delinquency reduction) has been excessive and counterproductive. The agency's recent preoccupation with lowering case delinquency has caused unfortunate displacement of families, an increase in government inventory, and increasing dollar losses. In addition, it drains staff resources which could be used to provide more assistance through full use of appropriated funds. Finally, HAC has disagreed with many

individual and specific policies and regulations promulgated by the agency, quite a few of which hinder provision of assistance to those most in need.

However, on balance, FmHA performance has been good. Congress and the Administration should build on its strengths.

Budget Assessment

OMB has declared an intention to place FmHA programs "on budget." It plans to do so, at least in part, through the elimination of the Federal Financing Bank (FFB), a Treasury vehicle through which FmHA sells insured paper. The notion that FmHA programs should be on budget is not disputed, only the manner in which those pushing it would provide implementation. The HAC position is that loans, secured by mortgages, are an asset and should be treated differently from direct expenditures. HAC advocates a credit budget type procedure where projected "life of the loan" interest costs are modified by anticipated losses as well as gains achieved by subsidy attrition, recapture, profitable sale, etc. FmHA's budget division has developed sophisticated mechanisms to provide these kinds of estimates, which will yield a more realistic forecast for cost to the government than the methods previously proposed by budget reformers. Appendix 14 illustrates how the HAC budget disclosure plan would work.

The elimination of the Federal Financing Bank would be unfortunate. The FFB provides a mechanism wherein government agencies such as FmHA can sell paper at lower rates and at less cost than if they had to go directly into the market. Without the FFB, FmHA operations would be more costly to the taxpayer. If budget "reformers" believe FFB sales are used to avoid disclosure of the costs of doing business, they should work for reform in actual disclosure, not abolition of the mechanism for cost effective sale of government insured issuances.

Farmer Loan Programs

The budget proposal eliminates all FmHA Farmer Loan programs, save a 70-90% guaranteed operative loan program with a 5 percent origination fee, and a disaster emergency loan program at Treasury bill rates. Neither of these programs will be of much use to famers in trouble, particularly young farmers with extensive debt. The Administration's obvious premise that rural banks will be in a position to participate in the program is also doubtful given the difficulties currently being experienced by agricultural lenders.

No informed person will dispute the fact that the FmHA Farmer Loan programs have myriad problems, not the least of which are high delinquencies and large numbers of borrowers with little hope for success. These problems are, however, symptomatic of the farm economy rather than deficiencies of the loan programs.

If FmHA terminates assistance, troubled young and even older small farmers will have no practical chance for survival.

The Administration's response to troubled borrowers has until now been liquidation. Now a complete cut off of the credit necessary to their survival is proposed. What is needed, in addition to a complete overhaul of the farm subsidy mechanisms is a special debt settlement program which will enable farmers to continue operating.

Conclusion

The information and data in this report provide proof of a continuing and unmet need for services for the rural poor. The Farmers Home Administration programs and delivery system are best equipped to deal with this need with respect to housing, water, waste and health facilities, and assistance to small farmers.

The budget proposal leaves unanswered how the housing needs of the poor will be met. Even if private credit were universally available in rural areas, low and very low-income families could not afford to use it. State and local housing finance efforts utilize tax-exempt offerings to reach families with lower incomes than those who can afford private credit, but these local programs do not serve the poor, or the near poor. The expectations, associated with current budget proposals, that everyone will assume a fair share of the discomfort yielded by the cuts, is disingenuous at best. The budget proposals terminate the FmHA rural housing and community development programs, and in so doing, exacerbate and already impossible situation for the rural poor.

Shelter is not an expendable item that can be cut back or eliminated when times are difficult. It's an essential element required for the support of human life that also has a direct bearing on the creative and productive potential of people. A proposal which would eliminate programs of assistance that have proven successful for years in raising the quality of life for the rural poor, but which at the same time offers no realistic alternatives is questionable on both moral and economic grounds. It reflects a policy that at best is shortsighted.

Rather than being eliminated or cut beyond useful capacity, the FmHA programs should be reformed to assure their efficiency and increase their ability to serve the poor. The economic and social problems of rural communities call for creative solutions, not the burial of programs created to address exactly the problems we face in rural America today.

Appendix 1

FmHA RURAL HOUSING BUDGET REQUEST LEVELS FY 1979 - 1986

(Dollars in Millions and Rounded)

		1979	1980	1981	1982	1983	1984	1985	1986
502	Subsidized R.H Loans	$ 2,007	$2,007	$2,300	$2,530	$ 900	$ 280	$1,600	0
502	Unsubsidized R.H. Loans	674	500	472	802	0	0	0	0
502	Guaranteed R.H. Loans	0	500	275	0	0	0	0	0
504	Low Income Repair Loans	24	24	50	25	24	1	17	0
504	Low Income Repair Grants	24	24	25	25	12.5	0	0	0
514	Farm Labor Housing Loans	38	30	25.6	25.6	19	3	13	0
516	Farm Labor Housing Grants	38	25	25	25	23.2	4.4	0	0
515	Subsidized Rental Housing Loans	820	820	820	983	200	16	690	0
515	Unsubsidized Rental Housing Loans	48	48	48	0	0	0	0	0
521	Rental Assistance	370	393	393	398	185	62	116	0
523	Self-Help T.A. Grants	16.5	5	15	5	0	0	0	0
523	Land Development Loan Fund	0	0	4	4	0	0	0	0
524	R.H . Site Loans	1.2	1	7	5	2	0	0	0
525	Tech. & Supervisory Assist. Grants	0	1.2	2	2	0	0	0	0
509(c)	Compensation for Constr. Defects	5	5	5	2	2	0	0	0
533	R.H. Preseravation Grants	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
	Rural Hsg. Block Grants	N/A	N/A	N/A	N/A	0	850	0	0
	Collection and Serving Contracts	0	0	0	0	0	10	10	UK
521	Home Ownership Assistance Program (HOAP)	N/A	985	100	100	0	0	0	0
	TOTALS:	$4,065.7	$5,368.2	$4,566.6	$4,931.6	$1,367.7	$1,226.4	$2,446.0	0

(a) Preliminary Budget Request (OMB, White House)

(b) Revolving Loan Fund. Budget level represents requests for additional funding.

DOLLAR LEVELS, FmHA PROGRAMS, FY 1979-1985

(Dollars in Millions and Rounded)

Farm Programs	1979 Actual	1980 Actual	1981 Actual	1982 Actual	1983 Actual	1984 Actual	1985 Appropriation
Farm Ownership Loans	763.2	$ 954.1	$ 813.3	$ 661.6	$ 749.6	$ 700.7	$ 732.0
Farm Operating Loans	894.8	874.8	847.6	1,251.0	1,735.5	2,071.4	2,420.0
Emergency Disaster Loans	2,871.6	2,260.0	5,112.3	2,173.4	565.9	1,052.0	870.0
Economic Emergency Loans	3,089.5	1,185.5	1,245.4	-0-	-0-	599.3	-0-
Guaranteed Emergency Livestock Loans	19.0	-0-	-0-	-0-	-0-	-0-	-0-
Soil and Water Loans	51.5	54.6	49.6	24.8	12.2	12.6	28.0
Irrigation and Drainage Loans	0.6	0.5	0.3	1.3	0.6	-0-	-0-
Watershed & Flood prevention Loans	4.8	9.9	16.9	1.1	0.8	-0-	14.0
Resource, Conserv. & Develop. Loans	1.9	1.8	2.0	0.9	1.2	0.08	2.0
Indian Land Acquisition Loans	11.0	6.4	3.6	1.0	7.5	2.6	4.0
Grazing Association Loans	2.1	4.2	-0-	-0-	-0-	-0-	-0-
Recreation Loans	2.2	2.3	1.8	0.7	-0-	-0-	-0-
TOTAL FARMER PROGRAMS	7,712.2	6,355.0	8,092.8	4,115.8	3,073.3	4,438.7	4,070
RURAL HOUSING							
502 Home Ownership Loans	2,878.1	2,843.4	2,589.3	2,476.4	2,137.1	1,849.4	2,300.0
504 Low Income Repair Loans	14.7	21.9	17.9	10.0	7.1	7.2	17.0
504 Low Income Repair Grants	19.0	24.0	22.7	13.6	12.5	12.5	12.5
514 Farm Labor Housing Loans	36.3	24.6	18.5	11.9	4.0	5.5	20.0
516 Farm Labor Housing Grants	32.4	22.3	10.5	14.9	7.5	9.8	-0-
515 Rural Rental Housing	869.5	881.3	864.8	953.7	802.0	919.0	900.0
523 Self-Help T.A. Grants	5.6	6.2	12.4	4.7	10.2	5.1	8.0
523 & 524 Site Loans	4.7	1.3	0.9	0.4	0.3	0.2	3.7
525 Technical & Supv. Assistance Grants	2.5	1.5	1.0	-0-	-0-	-0-	
Rental Assistance Contracts	423.0	393.0	403.0	398.0	123.7	111.0	168.25
509(c) Comp. for Constr. Defects.	0.4	0.6	0.7	0.3	0.3	0.2	1.0
TOTAL RURAL HOUSING	4,286.2	4,220.1	3,941.7	3,883.9	3,105.5	2,919.9	3,413.5
Community Programs							
Water and Waste Loans	900.0	700.0	750.0	375.0	600.0	270.0	340.0
Water and Waste Grants	291.6	298.7	210.4	133.8	313.2	103.7	115.0
Community Facilities Loans	247.0	240.0	260.0	126.2	130.0	130.0	115.0
Rural Development Grants	10.0	10.0	5.0	-0-	-0-	-0-	-0-
Rural Dev. Planning Grants	5.0	6.0	-0-	-0-	-0-	-0-	-0-
Energy Assistance Grants	18.7	20.4	16.5	3.3	-0-	-0-	-0-
Business and Industrial Loans	1,219.3	1,073.8	652.3	125.1	81.9	124.4	150.0
TOTAL COMMUNITY PROGRAMS	2,691.6	2,348.9	1,894.2	763.4	1,125.1	793.7	720.0
TOTAL ALL PROGRAMS	$14,690.0	$12,924.0	$13,928.7	$ 8,763.1	$ 7,303.9	$ 9,480.7	$ 8,203.5

*Construction defects program authorized at $2.0 for FY81, 82, 83, and 84. Was proposed at zero for 84 and 85.

FmHA Housing Units Fiscal Years 1979 - 1985

Program	1979	1980	1981	1982	1983	1984*	Appropriation 1985
502 Subsidized	64,264	62,739	61,544	56,850	51,211	43,459	46,278
502 Unsubsidized	29,136	18,918	7,990	5,107	709	20	-0-
502 Above Moderate	374	590	172	-0-	-0-	-0-	-0-
504 Loans	5,213	6,934	5,296	2,771	1,993	2,057	4,213
504 Grants	6,407	8,013	7,014	3,937	3,670	3,416	3,250
514 FLH Loans							
516 FLH Grants	2,575	1,606	913	565	301	775	679
515 Subsidized	36,521	33,565	29,643	30,616	23,406	25,303	23,600
515 Unsubsidized	2,129	2,277	784	-0-	-0-	-0-	-0-
Sub-Total Units	146,619	134,642	113,356	99,846	81,290	75,030	78,020
Rental Assistance Units **	22,623	20,000	17,655	14,280	11,750	11,750	14,050
TOTAL UNITS	169,242	154,642	131,011	114,126	93,040	86,780	92,070

* Preliminary Estimate

** Not unduplicated units, housing unit production contained in subtotal

Single Family Housing Cost and Income Comparisons, U.S. Overall Sales to Those Financed by FmHA 1977-1984

	All Existing Housing			All New Housing			FmHA Housing		
	Median Price	Mortgage Rate	Qualifying Income	Average Cost	Average Mortgage	Median Income	Aver. price Existing	Aver. Price New	Aver. Family Gross Income
1977	$42,900	9.02%	$ 16,010	$ 54,200	$ 40,500	$ 22,264	$ 22,295	$ 24,133	$ 9,926
1978	48,700	9.58	17,640	62,500	45,900	24,756	25,279	26,977	10,056
1979	55,700	10.92	19,680	71,800	53,300	27,009	28,132	30,183	10,484
1980	62,200	12.95	21,023	76,400	59,200	30,894	30,884	33,115	11,109
1981	66,400	15.12	22,388	83,000	65,300	31,178	33,329	35,136	10,638
1982	67,800	15.38	23,433	83,900	69,800	38,187	36,246	36,495	12,445
1983	70,300	12.85	24,580	89,800	69,600	35,226	37,743	37,216	12,671
1984	$72,730	12.42%	$ 29,635	$ 97,400	$ 73,300	$ N/A	$ 39,419	$ 38,034	$ 12,678
Percent change 1977-1984:									
	+69.5%	+37.7%	+85.1%	+79.7%	+81.0%	+58.2%	+76.8%	+57.6%	+27.7%
Dollar Increase 1977-1984:									
	$29,830		$ 13,625	$ 43,200	$ 32,800	$ 12,962	$ 17,124	$ 13,901	$ 2,752

(a) Source: Nation Association of Realtors, November, 1984 monthly existing home sales report.

(b) Source: National Association of Homebuilders, January 10, 1985.

(c) Source: FmHA 617 reports.

UNITED STATES SUMMARY

RURAL MEDIAN HOUSEHOLD INCOME:	15,402
MEDIAN HOUSEHOLD INCOME ALL POP:	16,341

VARIABLE	NUMBER
RURAL POPULATION:	80,935,552
NO. OF OCCUPIED SUBSTANDARD UNITS;	2,149,979
RURAL FAMILIES BELOW POVERTY:	2,446,935
RURAL POPULATION 62 YEARS AND OLDER:	11,698,535
RURAL HOUSEHOLDS BELOW 50% OF AREA MEDIAN INCOME:	6,454,017
RURAL HOUSEHOLDS BELOW 80% OF AREA MEDIAN INCOME:	10,897,670
RURAL NON-WHITE POPULATION:	7,931,274
RURAL HISPANIC POPULATION:	3,890,399
RURAL HOUSEHOLDS BELOW 80% OF STATE MEDIAN INCOMES -ALL POP- :	11,510,047

RURAL INCOME STRATA
--HOUSEHOLDS--

INCOME STRATA	NUMBER	% OF U.S. RURAL HOUSEHOLDS
UNDER $5,000:	4,123,729	15.0
$5,000 -$7,499:	2,474,947	9.0
$7,500 -$9,999:	2,342,030	8.5
$10,000 -$14,999:	4,478,489	16.3
$15,000 -$19,999:	4,054,249	14.7
$20,000+:	10,059,906	36.5
TOTAL:	27,533,296	100.0

CHANGE IN TOTAL POPULATION 1970 - 1980

NUMBER:	23,663,365
GROWTH RATE:	11.5

OCCUPANCY CHARACTERISTICS

VACANT FOR SALE:	358,065
VACANT FOR RENT:	642,607
VACANCY RATE:	3.5

RENT TO INCOME STRATA

INCOME STRATA	AVERAGE RENT	PAY LESS THAN 20%	PAY MORE THAN 35%
UNDER $5,000:	145	50,734	831,592
$5,000 -$9,999:	198	205,228	477,720
$10,000 -$14,999:	221	437,708	86,866
$15,000 -$19,999:	240	499,023	14,439
$20,000+:	270	811,582	2,268

TAKING STOCK

RURAL PEOPLE AND POVERTY FROM 1970 TO 1983

THE HOUSING ASSISTANCE COUNCIL
JULY 1984

SUMMARY

The 1980 Census reveals some positive general trends in the areas of rural poverty and substandard housing conditions, but also their persistence at high levels in certain regions. Specifically, Census data demonstrate the following:

Rural Population Growth:

From 1970-80 the rural population grew by 11%, from nearly 53 million to nearly 59 million.

Poverty Persistence:

Nearly 8 million rural people had incomes below poverty level in 1979. Based on nonmetropolitan trends, it is estimated that the number of rural persons in poverty has increased to at least 13 million in 1983.

The rural poverty rate of 13.2% in 1979 contrasts with a 12.1% urban poverty rate. The rural poverty rate is estimated to have increased to nearly 18% in 1983.

Out of 86 counties in the U.S. with a poverty rate of one third or more, all but one were nonmetropolitan.

Rural poverty is concentrated among minorities and in Appalachia. All the counties with one-third poor were in the Southeast, in black majority communities, in Appalachia, in areas settled by American Indians, Eskimos or Aleuts, in areas with a predominantly Hispanic population, or in the Ozarks. Specifically:

The rural black poverty-level population in 1979 was 1.4 million. Over a third of rural blacks were poor in 1979. Nearly half the black elderly and over half the black female-headed households had incomes below poverty level.

Over half the nation's 1.5 million American Indians lived in rural areas. A third of rural Indians were poor in 1979.

Over 380,000 or more than a fourth of rural Hispanics were poor in 1979.

Most of the rural poor do not receive welfare assistance. Less than a fourth (23%) of rural poverty-level families received public assistance in 1979, whereas over a third (36%) of urban poverty-level households received assistance.

Over half (55.8%) of rural poverty-level families were among the "working poor", with household heads who worked in 1979. This share was a sixth higher than that of urban areas.

Nearly a fifth of the rural poor, as opposed to little more than a tenth of the urban poor, were elderly (over 65).

A fourth of rural poverty-level families were headed by women, with no husband present. The proportion of rural poor families which were female-headed had increased by a third since 1969.

Rural Housing Trends:

The number of rural occupied housing units increased by 25% during the 1970s, from 15.9 to 19.8 million.

The number of occupied rural mobile homes increased by 83%, from 1.26 to 2.30 million.

The number of occupied rural units which were substandard (lacking complete plumbing or overcrowded) declined by two-fifths from 2.88 million to 1.67 million.

There were 1.3 million fewer rural occupied units lacking complete plumbing in 1979 than in 1969.

Rural areas continued to have a disproportionate share of inadequate housing and water and sewer facilities. Specifically, with a fourth of the occupied units, they had:

a third of the substandard units;

over half of those lacking complete plumbing;

three-fifths of those with inadequate heating equipment and "uncomfortably cold";

94% of the units with no acceptable means of sewage disposal (public sewer, septic tank or cesspool);

95% of the units without an acceptable source of water (public system or well).

Units lacking plumbing were concentrated in areas settled by racial minorities and in Appalachia and the Ozarks. Nearly all the nonmetropolitan counties with at least a fifth of the housing stock lacking complete plumbing were in the high

poverty regions, including Appalachia, predominantly black communities of the Deep South, counties which contained Indian reservations or trust land (in Alaska, Arizona, New Mexico, South Dakota), or Southwestern counties which were predominantly Hispanic.

Rural Housing Affordability Problems:

In 1979 there were 2.8 million poverty-level rural households. Two-thirds were homeowners.

Rural areas harbored 1.7 million occupied units which were overcrowded or lacked complete plumbing. FmHA Service Areas had 2.2 million such substandard units.

Over 600,000 poverty-level rural households lived in units which were overcrowded or lacked complete plumbing. Two-thirds of these were in the Southern states.

In FmHA Service Areas there were 6.5 million very low-income households, with incomes below 50% of area median. Over a million were estimated to live in units which were overcrowded or lacked complete plumbing.

In general, rural areas in the 1970s gained population and enjoyed a decline in poverty rates. The black population of rural areas and the Deep South continued to decline, but not as rapidly as it had in the 1960s. The rural Hispanic population declined slightly, while the rural American Indian population increased dramatically.

Rural housing lacking complete plumbing declined by half, while the number of overcrowded units increased slightly. The number of mobile homes nearly doubled. Rural homeownership increased, although not significantly if occupant-owned mobile homes on rented sites are discounted. Two-thirds of rural households had water judged unacceptable for at least one major contaminant. The extent to which contaminated water offset the health benefits of increased plumbing is unknown.

In 1979, rural poverty and substandard housing rates continued to be higher than those of urban areas, and their share of public assistance benefits remained lower. Over half of the heads of rural poverty-level families worked. Over a fifth lived in units which were overcrowded or lacked plumbing.

High poverty rural areas were concentrated in Appalachia, the Ozarks, or regions predominantly settled by minorities, had grown or levelled off in population, and relied for employment chiefly on service and public administration occupations. Agriculture, manufacturing, and mining were other major sources of employment in high poverty areas. Complicated land tenure status of the residents impeded their use of the resources, particularly in obtaining credit for housing or economic development.

DRAFT

Nonmetro Cost of Living in 1984

In nonmetro areas, the cost of living on what the Department of Labor's Bureau of Labor Statistics (BLS) termed a "Lower Budget" was $14,619 in 1981, the last year family budgets were published. Applying CPI inflation factors to the budget and its components, we find that the nonmetro lower budget increased to $16,920 by the fall of 1984. Within that budget, the cost of food was $4615, housing (for renters) $3030, clothing $1375, transportation $1789, and medical care $1657. Among specific cost components, housing followed only medicare in its rate of cost increase from 1981 to 1984.

However, these figures are conservative, and probably err on the low side.

(1) For one thing, BLS assumes that those on the lower living budget are renters, with far lower shelter costs than homeowners. However, the majority of nonmetro residents, including those at poverty level, are homeowners. Should we assume that homeowner costs for those on an intermediate budget were a floor and thus applicable to low-income households as well, the nonmetro lower budget for shelter would rise from $3030 to $5853, and the total lower budget would rise to $19,743.

(2) From 1970-81 the cost of living increased more rapidly in nonmetro than in metro areas, and it is likely that the disparity has continued since 1981, when the family budgets were last published. However, of necessity the increases calculated above made use of the national CPI index, rather than a nonmetro index, and thus would underrepresent the current nonmetro cost of living.

We estimate, then, that the cost of living economically for a nonmetro low-income family of four now averages more than $17,000, if the family rents, and probably surpasses $20,000, if it owns and maintains its home.

Metro/Nonmetro Comparisons

BLS figures for family budgets show nonmetro to be lower than metro costs. The one exception is in transportation costs, higher for metro areas for the intermediate and higher budgets, but not for the lower budget. The overall gap between the nonmetro and metro budgets steadily narrowed, however, from 1970 to 1981, the last year the budgets were published.

The BLS nonmetro sample is confined to places with 2,500-50,000 people in 1960, considererd "urban" by the Census Bureau. Nonmetro "rural" places, with fewer than 2,500 residents, are not included, and would probably have mixed effects if they were. Food might cost less, for example, but transportation costs would be higher.

For nonfarm families raising children, however, the overall cost of living is higher in rural areas. The latest estimates of the Family Economics Research Group at the U.S. Department of Agriculture on the cost of raising a child show that as of June, 1984, rural costs were higher in the Northeast, South, and West regions, and were exceeded by urban costs only in the North Central region. The cost of food at home was less in all rural regions, and medical care and miscellaneous expenses were less on the average, but the savings in these categories were surpassed by other expenses. Transportation and clothing cost more in rural areas in three regions; housing, food away from home, and education cost more in two.

For many rural families, expenses exceed incomes. The 1981 Annual Housing Survey reports that 2,636,000 nonmetro households had incomes of less than $10,000 but spent more than 35% of their incomes on shelter costs. Most of these households earned less than $7,000. On the most positive assumptions - that these households only spent 35% of their incomes on shelter and that they were small households - they would still be unable to afford other expenses, according to the the BLS nonmetro lower living budget for retired couples.

Unfortunately, a large proportion of these households are in far worse straits. The AHS shows that 1,123,000 (722,000 renter and 491,000 owner) of the nonmetro households earning less than $10,000 in 1981 spent more than 60% of their incomes on housing. Over half of these had household incomes of under $3000, and thus had less than $1,200 to cover food, clothing, and other household expenses.

Lower Budget for a Nonmetro Family of Four

	1981		1984		
	Budget	CPI	Budget	CPI	Change
Total cost, autumn	$14,619		$16,920		15.74%
Cost of consumption, total	11,579	272.4	13,402	315.3	15.74
Food	4,313	274.6	4,615	293.8	6.99
Housing (rental)	2,612	293.5	3,030	340.5	16.01
Transportation	1,591	280.0	1,789	314.9	12.46
Clothing		186.9		203.2	8.72
and personal care*		232.0		274.7	18.40
	1,265		1,471 (est)		16.28 (est)
Medical care	1,266	294.5	1,657	385.4	30.36
Other family consumption (Includes education, primarily)**	532	NA	840 (est)	NA	57.30
Other costs	606	NA	NA	NA	NA
Social Security and disability insurance payments	981	NA	NA	NA	NA
Personal income taxes	1,453	NA	NA	NA	NA

*Clothing and personal care are separate items in the CPI. The rate of increase in personal care costs has been far greater than that of clothing, and the disparity is reflected in our weighted estimate. It should be noted, however, that annual spending for clothing and shoes alone in 1984 is estimated at $588 per person. Assuming that $588 per person, or $2,352 per family of four, is the intermediate budget, and that the lower budget is 40% lower as it was in 1981, the cost of clothing in the lower budget would be $1,667. Our aggregate estimate for clothing and personal care appears low, then, even if we assume as DOL does that the nonmetro cost for both is lower than that for the nation.

**Other goods and services in the CPI include personal care, educational expenses, and tobacco. Personal care has been dealt with above. Use of tobacco is here considered secondary to education.

Appendix 7

Table 7: Section 502 Cost and Income Distribution for Fiscal Years 1970-1984

	1970	1971	1972	1973	1974	1975	1975	1977	1978	1979	1980	1981	1982	1983	1984
Number of Initial Loans	65,033	103,824	106,878	109,183	86,543	94,589	132,771	107,515	100,476	93,774	82,247	61,957	69,543	51,910	43,459
Average Adjusted Family Income	$ 5,539	$ 5,433	$ 5,471	$ 6,218	$ 7,321	$ 7,750	$ 8,70	$ 9,905	$ 9,697	$ 9,974	$10,031	$ 9,485	$10,952	$11,791	$11,649
Average Loan - New Dwellings*	$12,990	$14,230	$15,483	$17,067	$19,706	$21,932	$23,267	$25,066	$27,949	$31,603	$35,111	$37,222	$39,366	$40,033	$40,920
Average Square Ft. Living Area	1,103	1,078	1,062	1,082	1,053	1,055	1,057	1,057	1,054	1,058	1,062	1,037	1,043	1,053	1,071

Percentage distribution of total number of initial loan borrowers by adjusted family income:

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Under $3,000	11.1%	12.0%	10.7%	6.7%	2.6%	1.8%	1.2%	0.9%	1.0%	1.2%	1.2%	0.0%	0.0%	0.0%	0.0%
$ 3,000 to $ 3,999	9.5	12.0	13.8	10.1	4.4	3.2	2.1	1.3	1.2	1.1	1.0	1.2	0.5	0.5	0.7
$ 4,000 to $ 4,999	13.6	14.2	16.3	14.2	8.9	7.2	5.5	3.0	2.4	1.9	1.7	1.8	0.7	0.6	1.0
$ 5,000 to $ 5,999	19.7	16.4	16.9	16.1	13.7	12.0	9.8	6.4	4.7	4.8	3.8	3.1	1.6	1.3	2.1
$ 6,000 to $ 6,999	24.5	20.3	18.5	18.0	18.3	15.6	13.8	9.5	8.5	7.5	7.2	6.6	3.8	3.1	4.2
$ 7,000 to $ 7,999	17.4	24.6	18.4	16.8	14.2	17.7	18.0	12.4	11.6	10.4	10.4	10.4	7.3	5.9	6.6
$ 8,000 to $ 8,999	2.8	**	4.2	10.2	14.4	13.5	14.4	14.1	13.7	12.2	13.0	14.3	10.7	8.4	8.0
$ 9,000 to $ 9,999	0.7	**	0.5	4.5	11.6	9.7	9.1	9.1	16.8	14.2	15.9	19.4	15.0	11.6	10.9
$10,000 and over	0.7	**	0.6	3.5	11.8	19.4	26.1	37.5	39.1	46.7	46.3	42.0	60.1	68.6	66.2
Poverty Income: Non Farm Family of 4)	$ 3,968	$ 4,137	$ 4,275	$ 4,540	$ 5,038	$ 5,500	$ 5,815	$ 6,191	$ 6,662	$ 7,370	$ 8,140	$ 8,450	$ 9,300	$ 9,900	$10,200

* Down payment not required
** Not measureable

HAC

Housing Assistance Council Inc. • 1025 Vermont Ave., N.W. • Suite 606 • Washington, D.C. 20005 • (202) 842-8600

Appendix 8
1 of 2

FmHA Section 515 MISTR Report on Tenant Incomes
Aug. 23, 1983, Feb. 18, 1984 and August 30, 1984
(August 30, 1984 Print-out Attached)

	8/23/83	2/18/84	8/30/84
1. Total Projects reporting	9,235	9,996	10,341
2. Total Units	180,130	197,629	204,620
3. Units occupied by very low-income tenants	137,556	145,578	149,704
4. Percentage of total Units	76.4%	73.7%	73.2%
5. Average income of very low-income tenants	$ 5,950	$ 5,906	$ 5,964
6. Units occupied by low-income tenants	35,333	42,412	44,528
7. Percentage of total	19.6%	21.5%	21.8%
8. Average income of tenants in 35,333 units	$ 11,201	$ 11,365	$ 11,511
9. Units occupied by moderate-income tenants	7,241	9,639	10,388
10. Percentage of total	4.00%	4.9%	5.1%
11. Average income of tenants in 7,241 units	$ 17,487	$ 17,323	$ 17,215
12. Average income, all tenants	$ 7,458.24	$ 7,634.37	$ 7,742.28

FMHA S MISTR QUERY AND REPORTING SYSTEM- AVERAGE TENNANT INCOME DATE: 08/30/84

SERVICING STATE	PROJECTS REPORTING	VERY LOW INCOME UNITS	VERY LOW INCOME AVE.INCOME	LOW INCOME UNITS	LOW INCOME AVE.INCOME	MODERATE INCOME UNITS	MODERATE INCOME AVE.INCOME
ALABAMA	335	4,641	5,838	2,855	11,772	957	16,173
ARIZONA	45	847	5,652	296	12,106	35	17,111
ARKANSAS	125	1,654	4,596	749	9,264	187	14,634
CALIFORNIA	218	8,648	6,426	971	13,379	83	20,244
COLORADO	89	1,486	5,841	212	12,738	43	20,112
DELAWARE	64	1,470	6,397	434	12,322	85	17,385
FLORIDA	192	3,863	6,214	2,967	11,007	591	13,173
GEORGIA	105	1,840	5,460	1,068	10,848	293	16,341
IDAHO	219	3,027	5,521	557	11,789	61	18,234
ILLINOIS	534	6,462	6,410	1,119	12,391	97	18,510
INDIANA	402	6,441	6,527	1,083	9,504	83	22,027
IOWA	1,379	9,146	6,270	1,884	12,566	613	19,379
KANSAS	151	1,495	5,390	295	11,642	60	20,775
KENTUCKY	69	1,721	4,358	528	9,657	56	14,285
LOUISIANA	100	1,564	4,910	1,226	10,951	473	16,210
MAINE	225	3,065	5,766	903	12,197	203	18,975
MASSACHUSETTS	102	2,724	7,694	423	14,923	144	20,346
MICHIGAN	317	7,604	6,442	1,271	12,753	203	20,062
MINNESOTA	587	6,175	6,237	1,615	11,709	439	19,264
MISSISSIPPI	251	3,868	3,967	2,036	9,226	413	14,196
MISSOURI	775	8,873	5,096	2,534	10,198	574	17,360
NEBRASKA	210	1,693	5,737	458	11,903	82	19,019
NEW JERSEY	3	26	7,076	30	14,000	22	18,636
NEW MEXICO	37	1,160	4,493	158	10,071	31	15,172
NEW YORK	137	3,478	7,815	576	14,048	64	21,523
NORTH CAROLINA	308	6,491	5,772	2,962	10,787	587	15,585
NORTH DAKOTA	378	2,614	5,327	787	11,722	265	19,932
OHIO	190	6,491	6,215	797	12,752	116	19,929
OKLAHOMA	132	1,373	5,705	820	11,253	233	16,087
OREGON	148	3,498	5,788	312	13,128	53	20,505
PENNSYLVANIA	137	3,836	6,501	659	15,660	86	19,940
SOUTH CAROLINA	187	3,629	5,196	1,748	11,227	521	16,056
SOUTH DAKOTA	545	3,292	5,427	1,457	10,961	531	18,682
TENNESSEE	73	1,179	5,276	479	10,583	122	16,350
TEXAS	551	6,844	5,996	3,582	11,487	1,315	16,745
UTAH	110	1,475	6,805	710	15,698	88	18,241
VIRGINIA	80	1,945	6,418	652	11,020	171	16,802
WASHINGTON	161	4,481	5,619	164	13,633	27	21,727
WEST VIRGINIA	129	2,218	5,133	769	11,314	150	16,513
WISCONSIN	480	6,277	6,520	1,199	12,488	178	21,192
WYOMING	49	946	6,359	229	14,025	45	24,766
ALASKA	9	65	9,019	149	14,935	8	27,358
HAWAII	3	79	7,000	5	15,000	0	* 0
NATIONAL AVE.	10,341	149,704	5,964	44,528	11,511	10,388	17,215

Counties without Savings and Loan or Branch Office
(Federal Home Loan Bank Board, December 28, 1984)

State	No. Counties Without S&L	Average Population	Population
U.S. Total	585		
(less Guam, PR & USVI)=	523	10,176	5,322,221
Alabama	10	15,366	153,660
Alaska	1	N/A	N/A
Arizona	2	31,757	63,514
Arkansas	7	9,038	63,266
California	2	2,085	4,170
Colorado	17	2,865	48,705
Connecticut	0		
Delaware	2	98,112	196,224
Florida	2	5,126	10,252
Georgia	45	8,180	368,100
Hawaii	0		
Idaho	22	6,139	135,058
Illinois	11	12,035	132,385
Indiana	4	10,191	40,764
Iowa	0		
Kansas	21	5,828	122,388
Kentucky	32	10,667	341,344
Louisiana	8	14,694	117,552
Maine	7	56,498	395,486
Maryland	2	24,326	48,652
Massachusetts	3	26,115	78,345
Michigan	12	9,957	119,484
Minnesota	4	7,719	30,876
Mississippi	11	5,992	65,912

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Missouri	12	7,681	92,172
Montana	29	8,112	235,248
Nebraska	27	2,648	71,496
Nevada	4	1,803	7,212
New Hampshire	1	65,806	65,806
New Jersey	0		
New Mexico	7	4,072	28,504
New York	6	41,698	250,188
North Carolina	14	15,466	216,524
North Dakota	12	3,601	43,212
Ohio	2	23,740	47,480
Oklahoma	13	7,535	97,955
Oregon	3	1,914	5,742
Pennsylvania	4	10,579	42,316
Rhode Island	1	46,942	46,942
South Carolina	1	10,700	10,700
South Dakota	31	4,164	129,084
Tennessee	22	9,191	202,202
Texas	25	3,709	92,725
Utah	14	9,780	136,920
Vermont	5	15,388	76,940
Virginia	38	13,115	498,370
Washington	3	7,998	23,994
West Virginia	20	17,370	347,400
Wisconsin	1	4,172	4,172
Wyoming	3	4,260	12,780
Puerto Rico	48	N/A	N/A
Virgin Islands	1	N/A	N/A
Guam	13	N/A	N/A

TABLE A
U.S. Counties Without S&L
Main Offices or Branches

- ALABAMA (10) -

Cleburne	Hale
Conecuh	Lowndes
Coosa	Perry
Crenshaw	Washington
Geneva	Wilcox

- ALASKA (1) -

Second Jud. Div. - N. West

- ARIZONA (2) -

Apache	Greenlee

- ARKANSAS (7) -

Cleveland	Newton
Lafayette	Perry
Lincoln	Stone
Montgomery	

- CALIFORNIA (2) -

Alpine	Sierra

- COLORADO (17) -

Cheyenne	Hinsdale
Conejos	Jackson
Costilla	Kiowa
Crowley	Mineral
Custer	Ouray
Delores	Park
Elbert	Saguache
Gilpin	San Juan
San Miguel	

- CONNECTICUT (0) -

None

- DELAWARE (2) -

Kent	Sussex

- DISTRICT OF COLUMBIA (0) -

None

- FLORIDA (2) -

Glades
Liberty

- GEORGIA (45) -

Atkinson
Baker
Banks
Brantley
Bryan
Calhoun
Chattahoochee
Clay
Clinch
Crawford
Dawson
Echols
Glascock
Greene
Hancock
Harris
Heard
Jasper
Jenkins
Twiggs
Union
Warren
Webster
Johnson
Lee
Lincoln
Long
Madison
Marion
McIntosh
Miller
Montgomery
Murray
Oglethorpe
Pike
Quitman
Steward
Talbot
Taliaferro
Taftnall
Taylor
Trentlen
Wheeler
White
Wilkinson

- HAWAII (0) -

None

- IDAHO (22) -

Adams
Bear Lake
Benewah
Boise
Boundary
Butte
Camas
Caribou
Clark
Clearwater
Washington
Custer
Franklin
Fremont
Jefferson
Lewis
Lincoln
Oneida
Owyhee
Power
Teton
Yellowstone National

- ILLINOIS (11) -

Alexander
Calhoun
Cumberland
Gallatin
Hamilton
Hardin
Johnson
Pope
Pulaski
Putnam
Scott

- INDIANA (4) -

Crawford
Ohio
Orange
Switzerland

- Iowa (0) -

None

- KANSAS (21) -

Chautauqua
Clarke
Comanche
Cowley
Elk
Gove
Gray
Greeley
Haskell
Hodgeman
Jewell
Kearny
Lincoln
Linn
Ottawa
Rawlins
Stafford
Stanton
Wabaunsee
Wallace
Woodson

- KENTUCKY (32) -

Bath
Bracken
Breathitt
Butler
Carlisle
Clay
Clinton
Cumberland
Edmonson
Elliott
Fleming
Gallatin
Henry
Jackson
Lee
Leslie
Letcher
Lewis
Livingstone
McCreary
Meade
Menefee
Morgan
Nicholas
Owsley
Powell
Robertson
Rockcastle
Spencer
Trimble
Wolfe

- LOUISIANA (8) -

Bienville
Caldwell
Catahoula
East Feliciana
Grant
Pointe Coupee
St. Helena
Tensas

- MAINE (7) -

Aroostook
Franklin
Oxford
Penobscott
Piscataquis
Somerset
Waldo

- MARYLAND (2) -

Caroline
Queen Annes

- MASSACHUSETTS (3) -

Dukes
Franklin
Nantucket

- MICHIGAN (12) -

Alcona
Alger
Antrim
Baraga
Benzie
Lake
Leelanau
Luce
Mackinac
Missaukee
Montmorency
Schoolcraft

- MINNESOTA (4) -

Cook
Lake
Lincoln
Mahnomen

- MISSISSIPPI (11) -

Benton
Calhoun
Carroll
Choctaw
Franklin
Holmes
Issaquena
Jefferson
Marshall
Sharkey
Smith

- MISSOURI (12) -

Atchison
Chariton
Dade
DeKalb
Gentry
Hickory
Knox
Mercer
Montgomery
Schuyler
Shannon
St. Clair

- MONTANA (29) -

Blaine
Carbon
Carter
Chouteau
Daniels
Deer Lodge
Fallon
Golden Valley
Granite
Jefferson
Judith Basin
Liberty
Madison
McCone
Meagher
Mineral
Musselshell
Petroleum
Power River
Prairie
Roosevelt
Rosebud
Sanders
Stillwater
Teton
Treasure
Wheatland
Wilbaux
Yellowstone National

- NEBRASKA (27) -

Arthur
Banner
Blaine
Boyd
Deuel
Dixon
Frontier
Garden
Garfield
Gasper
Grant
Greeley
Hayes
Hitchcock
Hooker
Keyapaha
Logan
Loup
McPhearson
Murrill
Nance
Pawnee
Rock
Sherman
Sioux
Stanton
Wheeler

- NEVADA (4) -

Esmeralda
Eureka
Lincoln
Storey

- NEW HAMPSHIRE (1) -

Grafton

- NEW JERSEY (0) -

None

- NEW MEXICO (7) -

Catron
DeBaca
Guadalupe
Harding
Hidalgo
Mora
Torrance

- NEW YORK (6) -

Cayuga
Greene
Hamilton
Schoharie
Washington
Wyoming

- NORTH CAROLINA (14) -

Bertie
Caldwell
Camden
Caswell
Clay
Currituck
Gates
Graham
Hyde
Jones
Pamlico
Swain
Warren
Yancey

- NORTH DAKOTA (12) -

Benson
Billings
Burke
Grant
Kidder
Logan
Oliver
Sargent
Sheridan
Sioux
Slope
Steele

- OHIO (2) -

Gallia
Monroe

- OKLAHOMA (13) -

Cimarron
Coal
Cotton
Dewey
Greer
Harmon
Harper
Jefferson
Johnston
Latimer
Love
Okfuskee
Pushmataha

- OREGON (3) -

Gilliam
Sherman
Wheeler

- PENNSYLVANIA (4) -

Cameron
Forrest
Fulton
Potter

- PUERTO RICO (48) -

Adjuntas
Aguada
Albonito
Arroyo
Barceloneta
Cabo Rojo
Camuy
Canovanas
Catano
Ciales
Cidra
Coama
Cumerio
Culebra
Fajardo
Guanica
Guayanilla
Gurabo
Hatillo
Homiqueros
Isabella
Jayuya
Juana Diaz
Juncos
Lares
Las Marias
Loiza
Luquillo
Maricao
Maunabo
Moca
Morovis
Naranjito
Orocovis
Patillas
Penuelas
Quebradillas
Rincon
Rio Piedra
Salinas
Santa Isabel
Toa Alta
Utuado
Vega Alta
Vega Baja
Vieques
Villalba
Yabucoa

- RHODE ISLAND (1) -

Bristol

- SOUTH CAROLINA (1) -

Allendale

- SOUTH DAKOTA (17) -

Armstrong
Aurora
Bennett
Bon Homme
Brule
Buffalo
Campbell
Clark
Carson
Deuel
Dewey
Douglas
Edmunds
Faulk
Gregory
Haakon
Hamlin
Hanson
Harding
Hyde
Jackson
Jerauld
Jones
Lymon
McPherson
Mellette
Minor
Sanborn
Shannon
Stanley
Sulley
Todd
Washabaugh
Ziebach

- TENNESSEE (22) -

Cannon
Clay
DeKalb
Decatur
Grainger
Grundy
Hancock
Houston
Jackson
Lake
Lewis
Meigs
Moore
Perry
Pickett
Polk
Scott
Sequatchie
Stewart
Trousdale
Union
Van Buren

- TEXAS (25) -

Armstrong
Atascosa
Borden
Delta
Donley
Franklin
Glasscock
Hartley
Hudspeth
Irion
Jeff Davis
Kenedy
Kent
King
Kinney
Knox
Lipscomb
Loving
McMullen
Oldham
Rains
Roberts
Sterling
Stonewall
Zavala

- UTAH (14) -

Beaver
Box Elder
Daggett
Emergy
Garfield
Juab
Morgan
Piute
Rich
San Juan
Sanpete
Sevier
Tooele
Wayne

- VERMONT (5) -

Caledonia
Essex
Grand Isle
Lamoille
Orleans

- VIRGIN ISLANDS (1) -

St. John

- VIRGINIA (38) -

Allegheny
Amelia
Augusta
Bath
Bland
Brunswick
Buckingham
Charles City
Charotte
Clarke
Craig
Cumberland
Dickenson
Floyd
Fluvanna
Goochland
Grayson
Southhampton
Surry
Greene
Highland
King and Queen
King George
Louisa
Lurenburg
Madison
Matthews
Middlesex
Nelson
New Kent
Northumberland
Patrick
Rappahannock
Russell
Scott
Shenandoah
Sussex
Westmoreland

- WASHINGTON (3) -

Ferry
Lincoln
Pendoreille

- WEST VIRGINIA (20) -

Braxton
Calhoun
Clay
Duddridge
Gilmer
Hampshire
Hardy
Lincoln
McDowell
Mineral
Mingo
Nicholas
Pendleton
Pocahontas
Ritchie
Roane
Tucker
Webster
Wirt
Wyoming

- WISCONSIN (1) -

Florence

- WYOMING (4) -

Crook
Niobrara
Sublette
Yellowstone National

- GUAM (13) -

Agat	Sinajana
Asan	Sumay
Barriguda	Talofufo
Inarajan	Umatac
Machanao	Yigo
Merizo	Yona
Pita	

Excluded from this table are the Pacific Islands consisting of The Carolines, Marshalls, Marianos, Somas, and Wake Island.

WASHINGTON POST, SUNDAY DECEMBER 30, 1984

The Great Farm-Belt Bank Crisis

If Agriculture Collapses, So Will Our Financial Institutions

By Thomas H. Olson and Weldon Barton

Thomas H. Olson is president of the Lisco (Neb.) State Bank and chairman of the agriculture committee of the Independent Bankers Association of America. Weldon Barton is the IBAA's agricultural representative.

A RAPIDLY GROWING debt crisis is looming across this nation's farm belt, one that threatens the very existence of hundreds of American banks and thus poses great dangers to the national financial system. Already, banks in rural America are failing at a higher rate than at any time since the Depression. But little has been done to cope with this problem.

The farm debt problem has been building since 1980-81. During these few years the value of farm land, farm machinery and other capital assets has plummeted by nearly a third nationwide, and by 50 percent or more in some locations. Of an estimated total farm debt of $215 billion, about $60-70 billion is owed by farmers whose debt exceeds 70 percent of their total assets. These people are the ones who would have to sell out if forced to meet their obligations at current payment schedules. If a wave of liquidations happened, land prices could collapse, and the money the acreage brought might not be sufficient to pay off the banks.

Agricultural banks were not pushed to the breaking point in abnormally large numbers until the middle of 1984. Twenty-two of the 40 banks that failed since June 15 were agricultural banks; they had an average of 53 percent of their total loans in agricultural credits. Most of them are located in the Great Plains states: five in Nebraska, four in Kansas, three in Iowa, two each in Oklahoma and Colorado. The rest were scattered elsewhere.

These numbers could balloon in 1985. There are about 4,300 U.S. banks that have at least 25 percent of their loan portfolios in agricultural loans, and 1,700 with 50 percent in farm loans. There are also about 850 local production credit associations and land bank associations in the federal Farm Credit System which specialize in agricultural lending. Seven of those local farm credit institutions are currently in liquidation — the equivalency of a commercial bank failure.

As long as "slack" remained in the overall credit system, banks and farm credit institutions could use a number of techniques to hold off trouble. They could consolidate farmers' short-term debt into longer-term obligations with lower payments. Credit institutions holding long-term debt secured by land and other fixed assets often "subordinated" their position to a bank which extended short-term operating credit to the same farmer, giving that bank priority access to the farmer's marketing receipts. This practice enabled farmers to secure annual operating capital, and at least postpone the liquidation of fixed assets.

Creditors have often practiced "forbearance" and in effect tolerated a farmer's inability to repay a loan on schedule, as long as the loan remained adequately collateralized. That was possible for a while after farm capital assets began to decline in value, partly because banks often required farmers to put up collateral substantially higher than the loan itself.

But such techniques are fast becoming impossible, as the agricultural credit systems is now tightening almost exponentially. Most ominous of all, the value of farmers' principal asset, their land, may be headed for further dramatic declines. According to Federal Reserve Board economist Emanuel Melichar, the total value of American farmland grew by $465 billion (in 1963 dollars) from 1971-79, and fell by about $149 billion from 1980-83. He says that the remainder of the gains made in '71-'79 may be wiped out in the years ahead as prices for farmland continue to fall.

The arithmetic explaining an agricultural bank's solvency threshold is rather simple. Assume a situation that would be

This gathering crisis deserves the kind of highest-level, concerted attention which has been devoted to the foreign debt crisis.

roughly typical for perhaps 1,500 banks across the farm belt.

The bank has $100 million of deposits to invest in loans and other assets (such as municipal bonds). Of this $100 million, about $36 million is loaned out to some 200 farmers — an average debt per borrower of $180,000. The bank is capitalized at 9 percent of deposits, or $9 million, which is $3.5 million more than the minimum required by the regulatory agencies (5.5 percent of assets). This cushion against losses consists mainly of funds accumulated over the years from earnings and the bank's common stock.

If 20 of the bank's $180,000 farm loans are classified by the regulators as unlikely to be collected, they would be treated as losses. But subtracting $3.6 million from the bank's $9 million in capital would wipe out the bank's cushion and bring it below the legal minimum. At that point the bank is legally subject to closing unless corrective action is taken.

Since the average capital level of the approximately 4,300 agricultural banks is about 9 percent of assets, the bank has, in effect, borrowed $10 out of every $11 it has loaned

(cont.)

CRISIS (cont.)

or invested. That makes it extremely difficult for the banks to withstand a run of farm failures among their customers. Even if a bank wants to be indulgent, it has to worry about its own creditors, who are unlikely to be so sympathetic.

Just as the situation is getting really perilous for the banks, however, the government agencies that might alleviate the situation are either tending to withdraw from involvement or to clamp down rather precipitously.

The Federal Deposit Insurance Corp. and the comptroller of the currency have increased regulatory pressures on banks for downward reappraisal of farmland and pushed for classifying more farm loans in "problem" categories. The Farmers Home Administration has basically closed its loan window as "lender of last resort" to commercially financed farmers who are in trouble. The secretary of agriculture is advocating a "free-market" approach to basic agricultural policies that would allow the USDA to sidestep the responsibility for helping to stabilize the receding agricultural economy.

These government policies all accentuate the negative psychology in the agricultural sector.

FDIC Chairman William Isaac said recently that the bank regulators' list of about 800 "problem" banks is growing because agricultural banks are being added faster than nonagricultural banks are being taken off. Chairman Isaac added, however, that the growing difficulties among farm banks do not pose a "threat" to the banking system as a whole.

The implication is that there are much larger problems to be concerned about. But what about the circles of misery and disruption engulfing local communities when an agricultual bank fails? What if the gathering crisis in 1985 forces widespread liquidations, inundating the weak markets for farmland in a dozen states and carrying in its wake hundreds of additional bank failures?

This gathering crisis deserves the kind of highest-level, concerted attention which has been devoted to the foreign debt crisis. Instead of preaching "free market," the government should be facing up to its responsibilities. The crippling impact of budget deficits on our farm economy must be faced. The government cannot avoid its responsibility to provide essential direction to balance production of farm commodities and demand for them.

There is no serious prospect that the agricultural economy can "grow its way" out of the current debt crisis through export expansion. A multiyear agricultural stabilization policy should be negotiated and enacted by Congress in 1985, when the farm bill has to be rewritten.

Yes, the agricultural sector does face a serious "shakeout" — an inevitable consequence of the excesses of the '70s when inflation took control of our farm sector and distorted it wildly. But the shakeout must be managed with great care, or else the repercussions will be felt far beyond the small rural communities whose banks are now in trouble.

The New York Times 12-27-84

Bleak Year for U.S. Banking

79 Failures Approach the Level of 1938

By ROBERT A. BENNETT

This has been a sobering year for the nation's banking system as more banks failed than in any year since the Great Depression. With the collapse last weekend of a small bank in Sandwich, Ill., the number of failures in 1984 rose to 79, the highest since 81 banks failed in 1938.

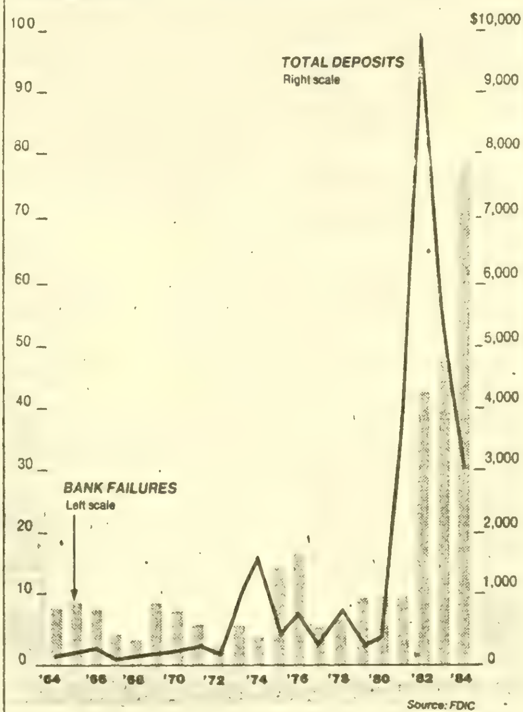
To be sure, this year's failures are a far cry from the 4,000 or so banks that failed in 1933, when there was no insurance system in place to cushion the blow, either to depositors or to the economy as a whole. Nonetheless, the rash of failures reflects both the existence of trouble spots in the economy — including agriculture, energy and real estate — as well as the uneven capabilities of bankers.

But if the numbers loom large, there are some comforting aspects to them. For one thing, most of the failed banks were relatively small institutions. Although their problems may have shaken their local communities, they represented only a small portion of the banking system, smaller even than in recent years. Deposits at failed banks this year totalled only $2.9 billion, well below the $5.4 billion last year and the $9.9 billion of the previous year.

More importantly, this year's bank collapses had relatively little effect on the overall financial system, and few depositors lost any money. At the start of 1984, there were widespread concerns that loans to developing countries might sour, crippling the banking system. But the "international debt crisis" never quite crystallized. And when the giant Continental Illinois National Bank and Trust Company of Chicago was threatened by a run on deposits in the face of huge problem loans to energy companies, the Federal Deposit Insurance Corporation and the Federal Reserve System quickly pumped in money to keep it from failing.

Savings Banks Are Beset by Loan Losses

The number of U.S. bank failures, and their total deposits, in millions of dollars



The New York Times/Dec. 27, 1984

Many analysts are surprised, however, that with the economy in its third year of recovery, many banks are still struggling to stay afloat. Indeed, as the year ended, the F.D.I.C.'s list of so-called problem banks swelled to a record 817, a number that has been growing since the beginning of 1983 and that included major banks as well as smaller ones. The previous record was in 1976, when 380 banks were on the list.

Yet, many analysts believe that the fundamental strength of the banking system has improved considerably in recent months because the nation's biggest banks seem to be in sounder condition.

"We're pretty close to full health," said Ronald I. Mandle, first vice

Continued on Page D19

Where Banks Have Failed
Excludes one bank failure in Puerto Rico

The New York Times/Dec. 27, 1984

U.S. Bank Failures This Year Are Near the Level of 1938

Continued From First Business Page

president of Paine Webber Inc.

Most analysts attribute that to an easing of the third world debt crisis. Agreements are being forged between most major debtor nations and the banks, reducing the likelihood of sudden defaults that could wipe out the net worths of a number of this nation's leading banking institutions.

"No banks have failed because of country-debt problems," Mr. Mandle said. "Even Argentina seems to be making progress."

Rather, the biggest problems have been loans to the once-booming domestic energy and agricultural sectors, and to a lesser degree, real estate. To the surprise of many, including banking officials, most of the failures have been in what had been considered the more prosperous Sun Belt states.

According to the F.D.I.C., there were no bank failures in New York State, in New England or in Pennsylvania, and only one in New Jersey and one in Michigan. But there were 11 failures in Tennessee; 6 in California and in Texas; 5 in Oklahoma, Texas, Oregon and Kansas, and 4 in Nebraska and Oklahoma.

"We all sit around trying to figure out why there haven't been more failures in states with high unemployment," said a regulator who asked not to be named. "We speculate that bankers in the Rust Belt have grown up dealing with adversities and know how to survive, and that bankers in areas that have been more prosperous still must learn how to deal with problems."

Regulators say that it is usually difficult to attribute any bank failure to one factor. But in some cases the basic problem is readily apparent.

An example of a bank that failed mainly because of farm loans was the David City Bank of David City, Neb. The bank had been "struggling in a down agricultural economy and this factor was paramount in causing its insolvency," said Roger M. Beverage, Nebraska's director of banking and finance. The bank had deposits of $17.4 million.

In the energy belt, the $25.2 million-deposit Community Bank and Trust Company of Enid, Okla., failed largely because of loans to the energy sector. And in California, the Heritage Bank in Anaheim, a relatively large bank, with deposits of $153.3 million, failed in March, mainly because of loans to real estate developers.

Farther north, the depressed condition of the forestry industry contributed to the failures of two Oregon banks, the Bank of the Northwest in Eugene, and the United Bank of Oregon in Milwaukie.

Brokered Deposits Are Cited

Banking authorities also attribute some of the problems to brokered deposits. Some bankers, they say, are so

(cont.)

eager to grow that they pay brokers such high rates to get deposits that the money must be re-lent at extraordinarily high rates, and to high-risk credits. In most cases the brokers get the money in large denominations from investors and break the deposits down into chunks of $100,000, the maximum amount insured by the F.D.I.C.

In some cases, banks receive brokered deposits with the understanding that they will make loans to specific borrowers. If the banks fail, the F.D.I.C. repays the depositors.

At the Heritage Bank of Anaheim, for example, $97.5 million of its $153.3 million in deposits represented brokered funds. Similarly, of the $20.7 million of deposits in the Emerald Empire Banking Company of Springfield, Ore., $11.2 million, or more than 50 percent, came from brokers.

In other cases, banking officials indicated that imprudent practices, such as loans to friends and associates, and illegal practices, such as embezzlement and fraud, had played a role in failures.

Questionable practices appear to have been involved, for example, in many of the 11 bank failures in Tennessee this year. Most of these failures were connected to the collapse of the United American Bank of Knoxville, which was owned by Jacob F. Butcher, known as Jake. Mr. Butcher and his brother, Cecil Hilque, or C.H., together had interests in 27 banks with assets of about $3 billion. Jake Butcher has been indicted for bank fraud.

Among the nation's biggest banks, none technically failed this year, but some were shaken. Government officials privately contend that Continental's takeover by the Government was an effective failure — its top executives were dismissed, most of its directors removed and its stockholders are expected to lose most, if not all, of their investment. But the Government's intervention avoided an actual failure of the nation's eighth-largest bank, which could have caused a chain reaction of bank failures.

Large Banks Not Immune

In addition to Continental's problems, other large banks were experiencing serious troubles. In the third quarter, for example, the First Chicago Corporation, the parent holding company of the First National Bank of Chicago, the 10th largest in the United States, reported a $71.8 million loss. That was the result of large loan write-offs following a special examination by the Comptroller of the Currency, the chief regulator of federally chartered banks. Similar events occurred at large banks elsewhere in the United States, especially in Texas and Minneapolis.

Other giant banks, including the Bank of America, in San Francisco, the second largest after Citibank, also reported heavy loan losses.

At both First Chicago and Bank of America, the Comptroller forced the banks' directors — including some of America's most prestigious corporate executives — to sign legally binding pledges that their banks would be run more prudently.

On the more positive side, the nation's biggest banks — under pressure from regulators and investors — have been rebuilding their reserves against loan losses and increasing the levels of their stockholders' investments. As a result, there is a bigger cushion between possible loan losses and depositors' money.

Some analysts say that the pressures on banks to increase their primary capitalization could substantially slow economic growth.

"The danger to the economy," said Lawrence Cohn, first vice president and bank-stock analyst for Dean Witter Reynolds Inc., "is that the banking industry might overreact and tighten up too much. It could starve the economy of credit. I don't lose a lot of sleep over that, but it's something I give some thought to."

Bank Failures in 1984

Chronological summary of 1984 failures of banks insured by the Federal Deposit Insurance Corporation

Bank	Location	Deposits	Date	Action Taken
Farmers Bank and Trust Company	Winchester, Tenn.	$49.0	Jan. 6	Deposits assumed by Mid-South Bank and Trust Company, Murfreesboro, Tenn.
City & County Bank Of Jefferson County	White Pine, Tenn.	$22.0	Jan. 20	Deposits assumed by Merchants and Planters Bank of Newport, Tenn.
Indian Springs State Bank	Kansas City, Kan.	$25.7	Jan. 27	Deposits transferred to Brotherhood Bank and Trust Company, Kansas City, Kan.
Tucker County Bank	Parsons, W. Va.	$15.7	Feb. 3	Deposits assumed by Citizens National Bank of Elkins, W. Va.
Emerald Empire Banking Company	Springfield, Ore.	$20.7	Feb. 3	Deposits assumed by Citizens Valley Bank, Albany, Ore.
Heritage Bank of Bureau County	Depue, Ill.	$8.0	Feb. 8	Deposits assumed by The Colonial Trust and Savings Bank of Bureau County, Depue
West Olympia Bank	Los Angeles	$19.0	Feb. 10	Deposits assumed by Wilshire State Bank, Los Angeles
Brownfield State Bank and Trust	Brownfield, Texas	$38.9	Feb. 17	Deposits assumed by Brownfield State Bank
United Bank of Oregon	Milwaukie, Ore.	$14.5	March 2	Deposits assumed by United States National Bank of Oregon, Portland, Ore.
All American National Bank	Virginia Gardens, Fla.	$11.4	March 2	Deposits assumed by Capital Bank, North Bay Village, Fla.
National Bank and Trust Company	Traverse City, Mich.	$86.0	March 9	Deposits assumed by NBD Northwest Bank, Traverse City
Seminole State National Bank	Seminole, Texas	$41.3	March 16	Deposits transferred to a newly chartered subsidiary of First West Texas Bancshares, Midland, Texas
Heritage Bank	Anaheim, Calif.	$153.3	March 16	Deposits paid off
First Security Bank	Erwin, Tenn.	$21.8	April 6	Deposits assumed by Bank of Tennessee, Kingsport, Tenn.
Watauga Valley Bank	Elizabethton, Tenn.	$13.4	April 6	Deposits assumed by Carter County Bank, Elizabethton
Security National Bank Of Lubbock	Lubbock, Texas	$40.6	April 13	Deposits transferred to City Bank, Lubbock, a newly chartered institution
The Shelby National Bank Of Shelbyville	Shelbyville, Ind.	$80.0	April 19	Deposits assumed by American Fletcher National Bank and Trust, Indianapolis
Gamaliel Bank	Gamaliel, Ky.	$21.6	April 19	Deposits transferred to Deposit Bank of Monroe County, Tompkinsville, Ky.
United American Bank	Chicago	$29.0	April 26	Deposits transferred to Mid-City National Bank of Chicago
Citizens Bank of Monroe County	Tellico Plains, Tenn.	$20.8	April 27	Deposits assumed by Bank of Oak Ridge, Tenn.
West Coast Bank	Los Angeles	$154.8	April 27	Deposits paid off
State Bank of Mills	Mills, Wyo.	$6.0	May 4	Deposits assumed by Mountain Plaza National Bank, Casper, Wyo.
Western National Bank Of Casper	Casper, Wyo.	$22.0	May 4	Deposits assumed by a newly formed subsidiary of Affiliated Bank Corporation, Casper
The First National Bank Of Rushford	Rushford, Minn.	$20.0	May 4	Deposits assumed by Goodhue County National Bank, Red Wing, Minn.
First National Bank	Snyder, Texas	$15.2	May 4	Deposits transferred to American State Bank of Snyder
The National Bank of Carmel	Carmel-by-the-Sea, Calif.	$70.8	May 8	Deposits transferred to County Bank and Trust, Santa Cruz, Calif.
The Mississippi Bank	Jackson, Miss.	$167.6	May 11	Deposits assumed by Grenada Bank, Grenada, Miss.
First Continental Bank and Trust Company of Del City	Del City, Okla.	$92.3	May 11	Deposits transferred to United Oklahoma Bank of Del City
Bledsoe County Bank	Pikeville, Tenn.	$4.9	May 18	Deposits assumed by Citizens Bank of Dunlap, Tenn.
Planters Trust and Savings Bank of Opelousas	Opelousas, La.	$57.0	May 18	Deposits assumed by First National Bank of St. Landry Parish, Opelousas
Washington National Bank Of Chicago	Chicago	$14.2	May 18	Deposits assumed by Banco Popular de Puerto Rico, San Juan, P.R.
Bank of Irvine	Irvine, Calif.	$28.4	May 18	Deposits assumed by Security Pacific State Bank, Irvine
First National Bank Of Prior Lake	Prior Lake, Minn.	$13.4	May 24	Deposits assumed by First National Bank of Shakopee, Minn.
Garden Grove Community Bank	Garden Grove, Calif.	$37.0	June 1	Deposits assumed by Capital Bank, Downey, Calif.
Cherokee County Bank	Centre, Ala.	$36.7	June 6	Deposits assumed by by First Alabama Bank, Anniston, Ala.
Stewardship Bank of Oregon	Portland, Ore.	$5.4	June 8	Deposits paid off
The Lawrence County Bank	Lawrenceburg, Tenn.	$23.7	June 15	Deposits assumed by Farmers Bank of Lawrence County, Lawrenceburg
Farmers State Bank	Lyons, S.D.	$3.0	June 15	Deposits assumed by Dakota State Bank, Colman, S.D.
The Corning Bank	Corning, Ark.	$31.8	June 15	Deposits assumed by a de novo bank: The Corning Bank, Corning

Republic Bank of Kansas City	Kansas City, Mo.	$37.7	June 18	Deposits transferred to Landmark Bank, Kansas City, Mo.
The Farmers National Bank Of Aurelia	Aurelia, Iowa	$18.8	June 21	Deposits assumed by Heritage Bank, Aurelia
American Bank	Saint Joseph, Tenn	$30.7	June 27	Deposits transferred to Commercial and Industrial Bank, Memphis
East Texas Bank and Trust Company	Longview, Texas	$91.2	June 29	Deposits assumed by Texas National Bank, Longview
The Cotfeen National Bank	Coffeen, Ill.	$9.3	July 12	Deposits assumed by Coffeen State Bank, Coffeen
Guaranty State Bank Of St. Paul	St. Paul	$25.2	July 19	Deposits assumed by Shelard National Bank of St. Louis Park, Minn.
Coalmont Savings Bank	Coalmont, Tenn.	$23.5	July 24	Deposits assumed by First Bank of Marion County, South Pittsburg, Tenn.
Jackson County National Bank	Tuckerman, Ark.	$13.2	Aug. 9	Deposits assumed by First State Bank of Newport, Ark.
Peoples State Bank of Clay County	Poland, Ind.	$12.3	Aug. 10	Deposits assumed by First State Bank, Poland
The Tingley State Savings Bank	Mount Ayr, Iowa	$18.0	Aug. 10	Deposits assumed by Hawkeye Bank and Trust, Mount Ayr
Girod Trust Company	San Juan, P R.	$258.0	Aug. 16	Deposits assumed by Citibank, New York
The First State Bank	Thayer, Kan.	$11.0	Aug. 22	Deposits assumed by First State Bank, Thayer
Hereford State Bank	Hereford, Colo.	$2.5	Aug. 24	Deposits paid off
Bank of the Northwest	Eugene, Ore.	$16.0	Aug. 31	Deposits assumed by First Interstate Bank of Oregon, Portland, Ore.
David City Bank	David City, Neb.	$17.4	Sept. 6	Deposits assumed by The First National Bank of Omaha
Oakland Savings Bank	Oakland, Iowa	$19.2	Sept. 7	Deposits assumed by Oakland State Bank, a newly chartered subsidiary of Panhandle Aviation Inc.,Clarinda Iowa.
Community Bank and Trust Company	Enid, Okla.	$25.2	Sept. 14	Deposits assumed by The First National Bank and Trust Company of Enid
Bank of Verdigre and Trust Company	Verdigre, Neb.	$12.6	Sept. 19	Deposits assumed by The National Bank of Neligh, Neb.
Century National Bank	Jacksonville, Fla.	$15.2	Sept. 20	Deposits assumed by Barnett Banks of Florida Inc., Jacksonville
Security State Bank	Weatherford, Okla.	$45.3	Sept. 21	Deposits assumed by United Community Bank, Weatherford
Orange Savings Bank	Livingston, N.J.	$513.0*	Sept. 28	Acquired with F.D.I.C. assistance by Hudson City Savings Bank of Paramus, N.J.
The Farmers and Merchants Bank	Tecumseh, Okla.	$28.0	Oct. 5	Deposits assumed by Republic Bank of Tecumseh, a subsidiary of Republic Bancshares Inc., of Oklahoma City
The Rexford State Bank	Rexford, Kan.	$5.3	Oct. 10	Deposits assumed by Peoples State Bank of Rexford, a newly chartered subsidiary of JEST Inc., of Oakley, Kan.
Oneida Bank and Trust Company	Oneida, Tenn.	$4.9	Oct. 12	Deposits assumed by Energy Bank of Oak Ridge, Tenn.
Bucklin State Bank of Bucklin	Bucklin, Mo.	$14.0	Oct. 12	Deposits assumed by United Missouri Bank, Brookfield, Mo.
American State Bank	Thomas, Okla.	$21.1	Oct. 19	Deposits assumed by The Bank of Thomas, a subsidiary of Thomas Bancshares Inc., Thomas
State Bank of Boyd	Boyd, Minn	$5.9	Oct. 24	Deposits assumed by State Bank of Madison, Minn.
Farmers State Bank	Kilgore, Neb.	$5.3	Oct. 24	Deposits assumed by The First National Bank of Valentine, Neb.
The Bank of Cody	Cody, Neb.	$9.8	Oct. 24	Deposits assumed by Guardian State Bank, Alliance, Neb.
The First National Bank of Gaylord	Gaylord, Kan.	$6.9	Oct. 25	Deposits assumed by Farmers National Bank of Gaylord
First American Banking Company	Pendleton, Ore.	$13.5	Nov. 16	Deposits assumed by Inland Empire Bank, Hermiston, Ore.
The Strong City State Bank	Strong City, Kan.	$4.3	Nov. 29	Deposits assumed by Chase County Bank, Strong City
The Dayton Bank and Trust Company	Dayton, Tenn.	$47.5	Nov. 30	Deposits transferred to First National Bank and Trust Company, Rockwood, Tenn.
Golden Spike State Bank	Tremonton, Utah	$8.8	Dec. 4	Deposits assumed by a newly chartered bank that will operate under the same name.
Farmer's State Bank of Holyoke	Holyoke, Colo.	$3.6	Dec. 7	Deposits assumed by Security National Bank, Holyoke, Colo.
University Bank of Witchita	Witchita, Kan.	$4.7	Dec. 11	Deposits assumed by Charter Bank, Witchita, Kan.
Uehling State Bank	Uehling, Neb.	$3.3	Dec. 18	Deposits transferred to a newly charted bank that will operate under the same name.
Farmer's State Bank	Selden, Kan.	$13.8	Dec. 20	Deposits assumed by Selden State Bank, Selden, Kan.
First Security Bank	Sandwich, Ill.	$10.4	Dec. 22	Deposits assumed by First National Bank of Sandwich.

* Cats are approximate total assets.

Source: Federal Deposit Insurance Corporation

Rural Water and Wastewater Facilities In 1980: A Brief Statistical Overview

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Rural Water and Wastewater Facilities in 1980

Rural problems with water supply and sewage disposal are complex. Although indoor plumbing increased over the 1970s, the ensuing benefits to health were and are increasingly offset by the deterioration of waste disposal facilities and the contamination of water supply. This is a widespread rural phenomenon, whose worst effects, however, are concentrated among lower-income households.

Cornell University, under contract with the U. S. Environmental Protection Agency (EPA), reported its findings in 1982 from a survey of 2,654 households representing 22 million rural households. Its National Statistical Assessment of Rural Water Conditions had found that almost two-thirds of all rural households had water judged unacceptable for at least one major contaminant, with coliform bacteria the most common contaminant. In general, households with low incomes (under $10,000) and low education (less than high school) were more likely to have bacterial contamination. About 370,000 rural households hauled water on a regular basis from an off-premises supply.

The 1980 Census shows that most (71%) of rural households in 1980 used septic tanks or cesspools as their method of sewage disposal. Almost half, or 6.7 million, of the 15.7 million septic tank or cesspool users were in the South; 4.4 million were in the North Central region, 2.8 million in the Northeast, and 1.8 million in the West.

Reliance on these on-site facilities distinguishes rural communities from the Census category of households in urban communities (containing more than 2,500 residents) which are, however, "outside urbanized areas". Only 12% of households in non-urbanized communities with from 2,500 to 10,000 residents and only 5% of those in communities with from 10,000 to 50,000 residents used septic tanks or cesspools. The predominant means of sewage disposal in these communities were public sewers, which, in contrast, had been used by only 23% of rural households.

"Other means" of sewage disposal are undefined by the Census. Presumably they include privies at worst and compost or chemical toilets at best. Six percent of rural households used these, as opposed to 1% of larger non-urbanized households and 0.1% of urban households.

The use of "other means" varied widely among states, however, from 40% in Alaska to 1% in Connecticut, Massachusetts, and New Jersey. Use of undefined means of sewage disposal tended to be concentrated in states with relatively high rural poverty populations: Arkansas (20%), Kentucky (16%), Pennsylvania

(16%), Mississippi (15%), New Mexico (13%), West Virginia (12%), Virginia (12%), Alabama (11%), Arizona (11)%), Missouri (10%), and Tennessee (10%). The apparent correlation between poverty and use of undefined sewage disposal methods suggests that the households concerned are using outdoor privies rather than technologically innovative devices for non-waterborne sewage.

Data for sewage disposal were not reported by the Census for minorities. However, the presence of complete indoor bathrooms was reported. Twenty-four percent of rural black households had no bathroom or only a half bathroom in 1980, as opposed to 7% of all rural households, and 4% of white households. Concerning other minorities, 11% of rural Spanish origin households and 10% of American Indian households (which are not broken down by rural and urban location) did not have a complete bathroom.

Compared to the minimal rural use of public sewers, rural households are much more likely to be connected to a public water system, private company system, or cluster well (serving more than five housing units). Forty-four percent used these communal facilities, with almost an equal number (43%) using individual drilled wells. Eight percent had individual "dug" wells.

Five percent used "some other source", at best cistern or purchased water. This proportion is comparable to the rural proportion using "other means" of sewage disposal; however, the proportionate use variations among states indicates that the populations concerned are not identical. Correspondence is close in Appalachia where, for example, Kentucky had as high a rate of using undefined sources of water as it did using undefined means of sewage disposal (16%). Virginia, West Virginia, and Tennessee all were higher than average in their use of undefined water sources, as they were in their use of undefined means of sewage disposal. Correspondence between the two is low in the South, however, where the high use of other means of sewage disposal is in sharp contrast to the low use of other sources of water. As pointed out below, the presence of free-flowing water may be a determinant; in Appalachia, the many mountain streams could be providing other sources of water, however unpotable, and other means of sewage disposal, however unsanitary.

Conversely, southern rural households rely more heavily on public or other communal systems. The National Rural Community Facilities Study contracted by the Farmers Home Administration (which surveyed communities but not households) notes a higher presence of public water systems in small southern communities, and suggests, "To some extent the greater availability of on-site water supplies in the Northeast and North Central regions, through relatively shallow wells and springs, may explain these differences...The relatively heavy reliance on public water systems by communities in the South and West may also be due to recent population growth in these regions."

The common use of "individual dug wells" in some states may be of concern, since the water tapped is less likely to be filtered than that of deeper wells, and the effects on health are questionable. Health problems are less likely in areas where the flow of water is abundant, and the states relying most on dug wells are in such areas: New Hampshire (21%), Maine (19%), Connecticut (17%), Rhode Island (16%), and Vermont. However, southern states with poor soil percolation are also relatively high users of dug wells, as in Georgia (14%), North Carolina (14%), Virginia (14%), Alabama (11%), and South Carolina (10%), and contamination problems there may be more of a problem.

The contamination of drinking water with coliform bacteria is one indication that residential sewage disposal capability is inadequate. Unfortunately, a study by SCS Engineers finds that two-thirds of the land area in the United States do not meet the minimum requirements for soil absorption systems. At the same time, according to the 1980 Annual Housing Survey, 18 million or over two-thirds of rural households relied on septic tanks and cesspools for sewage disposal; another 937,000 used undefined means "other" than public sewer, septic tank, or cesspool. Much of the land area with severe soil limitations is in the areas where septic tank-field absorption systems are common.

The recently released USDA report on the National Rural Community Facilities Study sheds some light on regional variations in the inventory of community facilities. The authors find from a nationwide sample survey of nonmetropolitan communities that more than half (59%) of those in the North Central region and nearly half (45%) of those in the Northeast have no public water supply, and of those that do have public systems, the great majority serve under two-thirds of year-round households. In addition, more than three-fourths of the North Central and two-thirds of the Northeast communities were not served by a wastewater treatment plant. On the other hand, while the South had proportionately more wastewater treatment facilities, they were used least by the local population: "...by far the largest portion of those using on-site disposal methods lived in the South, where there were more than 13 million people within the service area of an existing plant, yet not connected to it".

These findings suggest that the emphasis of the rural water and waste disposal challenge is shifting from meeting an indoor housing need to meeting community needs for sanitary water and waste disposal facilities. There are still many low-income families without indoor plumbing, including bathrooms. But their number is declining, while the number of those drinking contaminated water is widespread and may be increasing, largely due to inadequate and degenerating sewage disposal resources.

Table 1

Households by Source of Water

	Total Households #	%	Public System Or Private Company #	%	Individual Drilled Well #	%	Individual Dug Well #	%	Some Other Source #	%
U. S. Total	86,758,717	100	72,528,131	84	11,227,722	13	1,874,200	2	1,128,664	1
Urban	64,666,430	100	62,747,855	97	1,677,900	3	171,970	.3	68,725	.1
Rural	22,092,287	100	9,780,296	44	9,549,822	43	1,702,230	8	1,059,939	5
Black	1,057,441	100	482,036	46	368,382	35	158,430	15	48,593	5
Sp. Origin	355,147	100	205,801	58	117,094	33	19,526	6	12,726	4
Am. Indian*	430,370	100	343,525	80	61,718	14	11,132	3	13,995	3

* Data for American Indians are not reported for rural households.

Table 2

Households by Means of Sewage Disposal

	Total Households #	%	Public Sewer #	%	Septic Tank Or Cesspool #	%	Other Means #	%	No or 1/2 Bath #	%
U. S. Total	86,758,717	100	64,240,532	74	20,926,961	24	1,591,224	2	2,833,787	3
Urban	64,666,430	100	62,747,835	91	5,267,087	8	290,467	1	1,072,624	2
Rural	22,092,287	100	5,131,656	23	15,659,874	71	1,300,757	6	1,461,757	7
Black	1,057,441	100	NA		NA		NA		248,334	24
Sp. Origin	37,485	100	NA		NA		NA		37,485	11
Am. Indian*	430,370	100	NA		NA		NA		43,018	10

* Not available for rural households.

Source: 1980 Census, Detailed Housing Characteristics, U.S. Summary.

Table 3

1980 Census

Rural Households: Source of Water

State	Total Rural Households #	%	Public System Or Private Company #	%	Individual Drilled Well #	%	Individual Dug Well #	%	Some Other Source #	%
U. S. Total	22,092,287	100	9,780,296	44	9,549,822	43	1,702,230	8	1,059,939	5
Alabama	568,711	100	291,108	51	193,180	34	60,886	11	23,537	4
Alaska	52,931	100	20,517	39	18,058	34	1,733	3	12,623	24
Arizona	163,292	100	120,013	74	33,651	21	2,339	1	7,289	5
Arkansas	423,136	100	200,437	47	177,474	42	30,136	7	15,089	4
California	817,246	100	472,392	58	285,161	35	20,895	3	38,798	5
Colorado	236,531	100	151,175	64	68,987	29	6,678	3	9,691	4
Connecticut	227,783	100	63,389	28	134,468	59	26,777	12	3,149	1
Delaware	73,636	100	24,723	34	41,715	57	6,593	7	605	1
Florida	653,348	100	294,632	45	336,546	52	17,875	3	4,295	1
Georgia	730,796	100	322,523	44	286,578	39	99,112	14	22,583	3
Hawaii	52,979	100	48,702	92	239	1	71	-	3,967	8
Idaho	161,365	100	71,832	45	74,638	46	5,485	4	9,410	6
Illinois	703,119	100	344,118	79	247,140	35	88,995	13	22,866	3
Indiana	700,159	100	241,165	34	392,159	56	44,359	6	22,476	3
Iowa	451,494	100	218,770	49	172,222	38	53,359	12	7,143	2
Kansas	314,027	100	199,664	64	87,831	28	18,167	6	8,365	3
Kentucky	641,781	100	298,805	47	184,778	29	57,875	9	100,323	16
Louisiana	468,781	100	174,599	59	153,189	33	33,392	7	7,601	2
Maine	220,512	100	68,318	29	94,833	44	41,029	19	16,332	8
Maryland	287,461	100	71,484	25	170,405	59	33,568	12	12,004	4
Massachusetts	327,699	100	210,077	64	89,459	27	23,775	7	4,388	1
Michigan	1,018,410	100	224,632	22	737,282	72	44,362	4	12,134	2
Minnesota	487,326	100	158,627	33	279,859	57	38,841	8	9,999	2
Mississippi	465,291	100	308,800	66	115,561	25	26,351	6	14,579	3
Missouri	627,969	100	296,844	47	256,174	41	40,505	7	34,446	6
Montana	144,196	100	60,756	42	64,815	45	7,978	6	10,647	7
Nebraska	229,232	100	118,828	52	99,416	43	9,302	4	1,686	1
Nevada	48,737	100	30,009	62	16,936	35	727	1	1,065	2
New Hampshire	167,745	100	60,259	36	65,395	39	34,900	21	7,191	4
New Jersey	285,877	100	108,673	38	155,735	54	18,634	7	2,835	1
New Mexico	133,757	100	71,513	53	49,359	37	5,089	4	7,796	6
New York	972,941	100	366,971	38	459,382	49	94,080	10	52,508	3
N. Carolina	1,155,084	100	344,163	30	569,631	49	165,438	14	75,852	6
N. Dakota	130,805	100	71,537	55	44,190	34	8,955	7	6,123	5
Ohio	990,768	100	350,138	35	510,009	51	67,186	7	63,435	6
Oklahoma	386,600	100	241,341	62	124,361	32	13,476	3	7,422	2
Oregon	327,259	100	140,413	43	148,028	45	14,042	4	24,776	8
Pennsylvania	1,308,346	100	503,670	39	643,637	49	68,938	5	92,101	7
Rhode Island	43,353	100	16,272	38	19,864	46	6,734	16	483	2
S. Carolina	501,283	100	218,230	44	219,243	44	52,379	10	11,431	2
S. Dakota	142,825	100	80,209	56	45,157	32	9,283	7	8,176	6
Tennessee	670,815	100	361,292	54	211,682	32	38,313	6	59,528	9
Texas	1,162,693	100	708,382	61	360,311	31	64,456	6	28,944	2
Utah	73,636	100	59,100	80	10,518	14	1,268	1	2,750	4
Vermont	130,670	100	49,517	38	40,739	31	16,382	13	24,032	18
Virginia	666,684	100	186,413	28	315,507	47	92,629	14	72,135	11
Washington	419,621	100	221,888	53	144,229	34	29,370	7	24,137	6
W. Virginia	448,772	100	232,359	52	154,046	34	24,677	6	37,690	8
Wisconsin	608,136	100	147,075	24	417,715	69	33,305	5	10,311	2
Wyoming	66,366	100	31,942	52	27,730	42	1,531	2	3,163	5

Table 4

1980 Census

Rural Households: Means of Sewage Disposal

State	Total Rural Households #	%	Public Sewer #	%	Septic Tank Or Cesspool #	%	Other Means #	%
U. S. Total	22,092,287	100	5,131,656	23	15,659,874	71	1,300,757	6
Alabama	568,711	100	61,104	11	444,948	78	62,659	11
Alaska	52,931	100	15,532	29	21,202	31	16,197	40
Arizona	163,292	100	44,116	27	100,980	62	18,196	11
Arkansas	423,136	100	83,646	20	305,070	72	34,420	8
California	817,246	100	245,123	30	553,042	68	19,081	2
Colorado	236,531	100	105,858	45	121,048	51	9,625	4
Connecticut	227,783	100	34,774	15	190,879	84	2,130	1
Delaware	73,636	100	20,277	28	50,703	69	2,656	4
Florida	653,348	100	158,653	24	477,297	73	17,398	3
Georgia	730,796	100	109,787	15	567,348	78	53,661	7
Hawaii	52,979	100	20,322	38	30,662	58	1,995	4
Idaho	161,365	100	51,672	32	104,491	65	5,202	3
Illinois	703,119	100	207,949	30	473,081	67	22,089	3
Indiana	700,159	100	137,290	20	540,836	77	22,033	3
Iowa	451,494	100	184,263	41	251,683	56	15,548	3
Kansas	314,027	100	140,003	45	160,946	51	13,078	4
Kentucky	641,781	100	98,553	15	439,807	69	103,421	16
Louisiana	468,781	100	99,877	21	341,697	73	27,207	6
Maine	220,512	100	38,705	18	167,728	76	14,079	6
Maryland	287,461	100	56,178	20	214,844	75	16,439	6
Massachusetts	327,699	100	55,003	17	269,819	82	2,877	1
Michigan	1,018,410	100	199,442	20	793,678	78	25,290	3
Minnesota	487,326	100	152,428	31	314,036	64	20,862	4
Mississippi	465,291	100	102,192	22	292,508	63	70,591	15
Missouri	627,969	100	150,655	24	413,536	66	63,778	10
Montana	144,196	100	49,857	35	88,038	61	6,301	4
Nebraska	229,232	100	109,797	48	108,430	47	11,005	5
Nevada	48,737	100	21,455	44	26,283	54	999	2
New Hampshire	167,745	100	30,100	18	133,202	79	4,443	3
New Jersey	285,877	100	82,727	29	199,674	70	3,476	1
New Mexico	133,757	100	33,245	25	82,794	62	17,718	13
New York	972,941	100	187,041	19	764,785	79	21,115	2
N. Carolina	1,155,084	100	148,393	13	915,122	79	91,569	8
N. Dakota	130,805	100	61,881	47	61,304	47	7,620	6
Ohio	990,768	100	206,010	21	737,391	74	47,367	5
Oklahoma	386,600	100	121,555	31	248,243	64	16,802	4
Oregon	327,259	100	78,718	24	240,515	73	8,026	2
Pennsylvania	1,308,346	100	322,845	25	937,278	72	48,223	4
R. Island	43,353	100	3,710	9	38,935	90	708	2
S. Carolina	501,283	100	89,521	18	371,786	74	39,976	8
S. Dakota	142,825	100	65,720	46	69,489	49	7,616	5
Tennessee	670,815	100	84,229	13	522,443	78	64,143	10
Texas	1,162,693	100	311,239	27	789,813	68	61,641	5
Utah	73,636	100	27,026	37	44,632	61	1,978	3
Vermont	130,670	100	31,567	24	94,326	72	4,777	4
Virginia	666,684	100	103,121	15	481,370	72	82,193	12
Washington	419,624	100	89,003	21	319,448	76	11,173	2
W. Virginia	448,772	100	111,864	25	280,881	63	56,027	12
Wisconsin	608,436	100	158,[illegible]41	26	426,202	70	23,393	4
Wyoming	66,366	100	28,789	44	35,621	54	1,356	3

TABLE A

Indicators of Housing Need Among Mobile Home Occupants: 1980

	Total		Household Income in 1979					
			Under $10,000		Under $5,000		Poverty Level	
Occupied Mobile Homes	3,874,236		1,507,919		624,522		601,285	
Rural	2,371,183		859,514	(E)	362,223	(E)	348,745	(E)
Lacking Complete Plumbing	57,091		38,942		23,382		25,232	
Rural	49,637		33,858	(E)	20,589	(E)	21,952	(E)
With Plumbing But Overcrowded	216,597		66,588		23,080		58,694	
Rural	150,207		45,946	(E)	16,003	(E)	40,499	(E)
Total "Substandard"	273,688		105,530		46,782		83,926	
Rural	199,844		79,804	(E)	36,592	(E)	62,451	(E)
Produced Before 1975	2,756,538		1,171,375		501,143		NA	
Rural	1,673,454		714,539	(E)	305,697	(E)	NA	
Produced Before 1959	306,829		178,157		94,292			
Rural	174,892		101,532	(E)	53,737	(E)		
Homes Not Anchored (49%)	1,896,826	(E)	NA		NA		NA	
Rural (48%)	1,128,209	(E)	NA		NA		NA	
Tenure								
Owners	3,095,195		1,086,347		435,178		397,143	
Rural	1,921,958		630,081	(E)	256,755	(E)	234,314	(E)
Renters	779,041		413,580		189,344		204,142	
Rural	450,225		227,469	(E)	106,033	(E)	114,320	(E)
Site Rented								
Homeowners (65%)	2,007,853	(E)	NA		NA		NA	
Rural (58%)	1,108,585	(E)	NA		NA		NA	
Home Renters (100%)	779,051	(E)	NA		NA		NA	
Rural (100%)	450,225	(E)	NA		NA		NA	
Rental Share of Income								
Homeowners' Site Rent	NA							
Home Renters								
More than 30%	281,711		258,951		136,196		144,671	
More than 35%	229,146		220,682		131,258		137,564	
More than 50%	135,589		135,002		109,904		109,591	
Rural	NA		NA		NA		NA	

Sources: 1980 Census of Housing, Mobile Homes Subject Report, HC80-3-2; Annual Housing Surveys of 1980 and 1977 (for tie-down factor).

See Footnotes at end of Tables for explanation of estimates.

TABLE B

Potential Water Source Problems of Mobile Homes

	Total		Household Income in 1979 Under $10,000		Under $5,000		Poverty Level	
Occupied Mobile Homes	3,874,236		1,507,919		624,522		601,285	
Rural	2,371,183		859,514	(E)	362,223	(E)	348,745	(E)
Owners	3,095,195		1,086,347		435,178		397,143	
Rural	1,921,958		630,081	(E)	256,755	(E)	234,314	(E)
Renters	779,041		413,580		189,344		204,142	
Rural	450,225		227,469	(E)	106,033	(E)	114,320	(E)
Without Public System or Private Company Source of Water	1,487,707		571,485		244,234		256,761	
Rural	1,347,400	(E)	491,477	(E)	212,484	(E)	223,382	(E)
Dug Well								
Owners	143,515		55,936		24,831		26,530	
Rural	130,599	(E)	50,342	(E)	22,596	(E)	24,142	(E)
Renters	36,108	(E)	21,295	(E)	10,802	(E)	13,636	(E)
Rural	34,303	(E)	19,166	(E)	9,830	(E)	12,409	(E)
Subtotal	179,623	(E)	77,231	(E)	35,633	(E)	40,166	(E)
Rural	161,185	(E)	69,508	(E)	32,426	(E)	36,551	(E)
Undefined:								
Owners	101,631		40,505		17,784		19,632	
Rural	92,484	(E)	39,695	(E)	17,606	(E)	19,436	(E)
Renters	25,570	(E)	29,402	(E)	7,659	(E)	9,990	(E)
Rural	14,857	(E)	28,814	(E)	7,582	(E)	9,890	(E)
Subtotal	127,201	(E)	69,907	(E)	25,443	(E)	29,622	(E)
Rural	107,341	(E)	68,509	(E)	25,188	(E)	29,326	(E)
Total Dug Well & Undef.								
Owners	245,146		96,441		42,615		46,162	
Rural	223,083	(E)	90,037	(E)	40,202	(E)	43,578	(E)
Renters	61,678		49,697		18,461		23,626	
Rural	49,160	(E)	47,980	(E)	17,412	(E)	22,299	(E)
SUBTOTAL	306,824	(E)	146,138	(E)	61,076	(E)	69,788	(E)
RURAL	272,243	(E)	138,017	(E)	57,614	(E)	65,877	(E)

Sources: 1980 Census of Housing, Mobile Homes Subject Report, HC80-3-2; 1980 Annual Housing Survey for rural income level ratios.

TABLE C
Potential Waste Disposal Problems of Mobile Homes

	Total	Household Income in 1979		
		Under $10,000	Under $5,000	Poverty Level
Occupied Mobile Homes	3,874,236	1,507,919	624,522	601,285
Rural	2,371,183	359,514 (E)	362,223 (E)	348,745 (E)
Owners	3,095,195	1,086,347	435,178	397,143
Rural	1,921,958	630,081 (E)	256,755 (E)	234,314 (E)
Renters	779,041	413,580	139,344	204,142
Rural	450,225	227,469 (E)	106,033 (E)	114,320 (E)
W/out Public Sewer	2,188,943	851,538	354,769	367,223
Rural	1,888,253 (E)	689,746 (E)	290,911 (E)	301,123 (E)
Septic Tank/Cesspool				
Owners	1,687,516	581,327	232,965	231,440
Rural	1,347,481 (E)	441,809 (E)	178,264 (E)	177,097 (E)
Renters	424,579 (E)	221,311 (E)	101,340 (E)	118,127 (E)
Rural	339,026 (E)	168,196 (E)	77,545 (E)	90,391 (E)
Subtotal	2,112,193 (E)	959,769 (E)	334,305 (E)	349,567 (E)
Rural	1,686,507 (E)	610,005 (E)	255,809 (E)	267,488 (E)
Undefined:				
Owners	88,771	42,459	21,377	23,472
Rural	77,426 (E)	35,241 (E)	17,869 (E)	19,620 (E)
Renters	22,335 (E)	16,164 (E)	9,299 (E)	11,980 (E)
Rural	19,481 (E)	13,416 (E)	7,808 (E)	10,060 (E)
Subtotal	111,106 (E)	58,623 (E)	30,676 (E)	35,452 (E)
Rural	96,907 (E)	48,657 (E)	25,677 (E)	29,680 (E)

Sources: 1980 Census of Housing, Mobile Home Subject Report, HC80-3-2; 1980 Annual Housing Survey for rural income level ratios.

Estimates (E) for Tables A, B, and C were based on 1980 Annual Housing Survey ratios for rural income ranges; 1977 Annual Housing Survey ratios for tiedowns, with nonresponses eliminated; 1980 Annual Housing Survey ratios for site rental, with nonresponses eliminated. The 1980 Census of Housing, Detailed Housing Characteristics was the basis for rural proportions of dug wells, undefined sourcees of water, septic tanks and cesspools, and undefined means of waste disposal. Proportions were estimated to be higher for mobile home users, because of the higher þroportion of those not using public systems, and were increased by the ratio between all nonusers and mobile home nonusers of public systems.

FmHA Programs which Construct, Purchase or Repair
Rural Housing Units.
Activity since inception through FY 1984

	Units[a]	Dollars[b]
Section 502 RH	1,580,966	$34,324,956,992
Section 504 Loans	70,111	138,463,587
Section 504 Grants	48,329	126,543,754
Section 514 FLH	23,703	337,977,980
Section 515 RRH	333,719[c]	7,720,847,530
TOTALS:	2,056,828	$42,648,789,843

(a) Initial loans and grants in Sections 502 and 504
(b) Total dollars obligated
(c) From 18,044 loans

SECTION 502 HOME OWNERSHIP LOANS

Year	Number of Units	Total Dollars
1950	3,691	$16,941,528
1951	4,817	22,894,108
1952	3,835	20,038,527
1953	3,137	18,458,787
1954	2,683	16,059,729
1955		
1956	523	3,720,904
1957	3,163	21,290,884
1958	4,591	33,065,871
1959	7,693	60,674,466
1960	4,962	40,735,995
1961	8,198	70,341,121
1962	10,667	96,343,232
1963	19,014	186,192,346
1964	13,579	130,279,176
1965	14,381	130,235,417
1966	28,304	256,458,080
1967	43,973	427,527,854
1968	47,515	468,846,968
1969	46,512	480,421,834
1970	65,033	756,351,941
1971	103,824	1,362,275,872
1972	106,878	1,561,220,800
1973	109,183	1,735,688,490
1974	86,543	1,589,883,200
1975	94,589	1,926,643,300
1976	132,771	2,899,924,862
1977	107,515	2,568,741,370
1978	100,476	2,690,853,100
1979	93,774	2,866,292,440
1980	82,247	2,824,490,930
1981	69,534	2,583,605,810
1982	61,957	2,476,416,760
1983	51,920	2,137,125,930
1984	43,479	1,844,912,360
TOTALS:	1,580,966	$34,324,956,992

SECTION 504 LOW-INCOME REPAIR PROGRAM

YEAR	LOANS NUMBER OF UNITS	LOANS TOTAL DOLLARS	GRANTS NUMBER OF UNITS	GRANTS TOTAL DOLLARS
1950	70	65,630	203	89,566
1951	92	84,535	277	131,228
1952	88	72,530	191	90,365
1953	35	33,660	123	57,775
1962	36		145	69,390
1963	132		1,364	1,029,655
1964	215	138,810	5,789	4,805,435
1965	777	603,220	2,361	1,922,020
1966	2,604	2,162,031		
1967	2,906	2,604,915		
1968	4,455	4,818,030		
1969	5,048	5,799,110		
1970	4,390	5,244,590		
1971	4,364	5,492,080		
1972	3,219	5,399,275		
1973	2,596	4,567,782		
1974	2,185	4,429,729		
1975	2,099	4,808,570		
1976	3,115	8,288,660		
1977	3,028	7,885,690	1,882	4,999,820
1978	4,393	11,941,510	3,537	9,000,080
1979	5,213	14,710,250	6,407	18,999,990
1980	6,934	21,923,910	8,013	23,999,990
1981	5,296	17,870,830	7,014	22,743,320
1982	2,771	10,043,550	3,937	13,605,300
1983	1,993	7,075,910	3,670	12,499,930
1984	2,057	7,174,310	3,416	12,499,900
TOTALS:	70,111	$138,463,587	48,329	$126,543,754

SECTION 514/516 FARM LABOR HOUSING LOANS AND GRANTS

	Number of Units		Dollars	
Year	Individuals	Family	514	516
1962			$ 52,500	$
1963			221,450	
1964	617	130	884,300	
1965	54	18	47,480	
1966	2,789	870	3,465,840	2,156,320
1967	528	1,199	3,818,360	2,678,440
1968	147	1,118	4,494,620	2,700,290
1969	234	710	3,530,910	5,003,500
1970	74	266	1,549,660	2,133,770
1971	0	120	474,300	736,550
1972	72	713	2,693,080	5,683,180
1973	97	1,639	10,214,260	1,745,930
1974	17	1,734	10,000,000	10,080,730
1975	266	831	8,065,000	5,000,000
1976	10	1,108	10,115,920	10,729,570
1977	54	1,157	5,335,760	7,250,000
1978	104	408	9,998,390	7,750,000
1979	206	2,369	36,328,810	32,427,860
1980	120	1,370	24,576,970	22,279,100
	Combined			
1981	913		$18,548,040	$10,518,320
1982	565		11,910,600	14,948,400
1983	301		3,994,290	7,543,530
1984	775		5,484,870	9,807,080
TOTALS:	23,703		$175,805,410	$162,172,570

SECTION 515 RURAL RENTAL HOUSING LOANS

Year	No. Loans	No. Units	Dollars
1963	2	24	$ 117,000
1964	22	192	1,166,000
1965	35	310	2,017,530
1966	81	578	4,307,170
1967	110	737	5,489,730
1968	297	1,627	13,175,000
1969	390	2,075	17,334,500
1970	510	2,995	28,440,740
1971	442	2,624	26,783,690
1972	515	3,868	40,117,880
1973	730	8,839	105,062,630
1974	879	12,590	173,314,030
1975	1,153	20,903	292,356,340
1976	1,539	30,175	499,983,000
1977	1,336	30,096	544,954,180
1978	1,446	35,511	675,944,550
1979	1,665	38,650	869,508,560
1980	1,539	33,100	881,336,140
1981	1,466	29,500	864,765,230
1982	1,428	30,616	953,667,720
1983	1,195	23,406	801,997,400
1984	1,264	25,303	919,002,010
TOTALS:	18,044	333,719	$7,720,847,530

FmHA Rental Assistance Program Since Inception

Number of Units

Fiscal Year	20 year Contracts New Projects	5 year Contracts New Projects	5 year Contracts Existing Projects	5 year Contracts Renewals	Total Units	Total Contract Dollars
1978	3970		15,005		18,975	348,843,295
1979	5750		16,873		22,623	422,955,250
1980	5000		15,000		20,000	392,990,000
1981	4852		12,803		17,655	402,982,396
1982	3570		10,710		14,280	397,997,880
1983		4,750	3,362	3,634	11,746	123,744,110
1984		4,750	1,064	4,936	10,750	110,994,250
TOTALS:	23,142	9,500	74,817	8,570	116,029	$2,200,507,181

Placing FmHA Loans "on Budget"

The methods previously proposed for placing FmHA housing programs on budget produce just as little accurate knowledge as does the present system. The cost of loans over a 33 year period can only, at best, be estimated. Actual cost will never be a first year average carried, and inflated over the full term. There are too many intervening factors. A reasonable projection for the cost of an FmHA subsidized loan can be more accurately accomplished by including:

(A) Subsidy cost over the anticipated life of the loans made;

(B) Interest payable to the Federal Financing Bank;

(C) Increases in cost over that for the initial year due to:

(i) increased subsidy due to decreases in income for some borrowers,

(ii) Servicing costs such as the payment of taxes from the RHIF,

(iii) Liquidation losses including those through the sale of inventory,

(D) Subsidy attrition due to:

(i) increases in borrower income,

(ii) sale or liquidation of the property prior to

the maturation date,

(iii) graduation to other credit,

(iv) interest paid by the borrower,

(v) subsidy recapture,

(vi) gains from liquidation including the sale of inventory.

The attachments illustrate previous attempts at providing more accurate budget cost information for FmHA rural housing loan programs.

ESTIMATE COSTS AND RECAPTURE FOR
910 UNIT HOAP PROGRAM LEVEL
OBLIGATED IN FY 1981

YEAR	HOAP SUBSIDY (NO ATTRITION)	INTEREST CREDITS (NO ATTRITION)	TOTAL SUBSIDY (NO ATTRITION)	NO. OF UNITS LEAVING PROG (ATTRITION)	SUBSIDY RECAPTURE	HOAP SUBSIDY NOT REALIZED OWING TO FY ATTRITION	INT CR NOT REALIZED OWING TO FY ATTRITION	NET SUBSIDY PAYMENT TO BE REALIZED
1981	$ 1,115,131	$ 2,480,094	$ 3,595,225	5	$ —	$ —	$ —	$ 3,595,225
1982	1,167,360	2,466,960	3,634,320	16	23,840	6,615	13,979	3,589,886
1983	1,222,992	2,451,456	3,674,448	24	76,104	28,128	56,384	3,513,831
1984	1,282,272	2,435,040	3,717,312	21	103,992	63,686	120,940	3,428,694
1985	1,345,200	2,417,712	3,762,912	19	124,902	97,303	159,681	3,380,946
1986	1,412,688	2,397,648	3,810,336	17	144,551	131,380	222,981	3,311,424
1987	1,486,648	2,375,760	3,862,408	12	126,516	165,847	265,293	3,304,752
1988	1,562,256	2,352,960	3,915,216	23	292,238	194,749	293,336	3,134,893
1989	1,643,424	2,328,336	3,971,760	19	284,981	244,870	346,992	3,094,917
1990	1,732,800	2,300,064	4,032,864	37	627,688	293,998	390,224	2,720,954
1991	1,826,736	2,269,968	4,096,704	30	584,130	383,615	476,693	2,652,266
1992	1,926,144	2,238,048	4,164,192	30	663,870	468,695	544,592	2,487,035
1993	2,034,672	2,201,568	4,236,240	30	748,380	562,926	609,100	2,315,834
1994	2,149,584	2,163,264	4,312,848	30	837,930	666,371	670,612	2,137,935
1995	2,273,616	2,120,400	4,394,016	30	830,670	780,608	728,004	2,054,734
1996	2,404,032	2,074,800	4,478,832	30	920,280	905,519	781,508	1,871,525
1997	2,545,392	2,024,640	4,570,032	30	1,015,290	1,043,611	830,102	1,681,029
1998	2,698,608	1,969,008	4,667,616	30	1,116,000	1,196,383	872,927	1,482,306
1999	2,860,944	1,908,816	4,769,760	30	1,222,740	1,363,717	909,869	1,273,434
2000	3,034,224	1,844,064	4,878,288	30	1,212,570	1,547,454	940,473	1,177,791
2001	3,219,360	1,773,840	4,993,200	15	660,720	1,749,186	963,786	1,619,508
2002	3,419,088	1,696,320	5,115,408	15	718,410	1,914,689	949,939	1,532,370
2003	3,632,496	1,611,504	5,244,000	15	779,580	2,094,739	929,301	1,440,380
2004	3,861,408	1,519,392	5,380,800	15	844,410	2,291,102	901,506	1,343,782
2005	4,106,736	1,419,072	5,525,808	15	820,260	2,505,109	865,634	1,334,805
2006	4,370,304	1,309,632	5,679,936	15	885,705	2,738,724	820,703	1,234,804
2007	4,651,200	1,191,072	5,842,272	15	955,050	2,992,272	766,256	1,128,694
2008	4,953,072	1,061,568	6,014,640	15	1,028,565	3,269,028	700,635	1,016,412
2009	5,278,656	919,296	6,197,952	15	1,106,520	3,571,091	622,057	897,404
2010	5,627,040	764,256	6,391,296	15	1,054,500	3,901,414	529,884	905,498
2011	6,000,048	597,360	6,597,408	13	981,201	4,260,034	424,176	932,047
2012	6,401,328	414,048	6,815,376	13	1,052,545	4,630,294	299,495	833,042
2013	6,754,541	256,818	7,011,359	13	1,120,153	5,001,842	188,787	807,155
TAL	$100,000,000	$59,341,726	$159,341,726	683	$22,972,351	$51,065,807	$18,195,819	$67,107,749

PROPER BUDGET ACCOUNT FOR FmHA INTEREST CREDIT PROGRAM
(For use in Federal Credit Budget) (1)

Year(2)	No.(3) Units	Full(4) Int. Credit	No.(5) Units Partial Attri-tion	Unused I.C..(6) due to Partial Attri-tion	No.(7) Units Com-plete Attri-tion	Unused I.C.(8) due to Compl. Attri-tion	No.(9) I.C. Addi-tions	Dollars for(10) I.C. Addi-tions	Net.(11) I.C. to be realized	Estimated (12) Recapture

(1) Interest credit is a cost, and as such would be included in unified budget in present form. However, complete detail should be outlined (in form proposed) in a separate federal credit budget which would also provide full information on the extent of FmHA borrowing in the market (through F.F.B. which provides reduction in cost to gov't).

(2) Show initial year through 33rd year. Estimated tracks those agreements entered into in the initial year.

(3) Initial No. Units.

(4) Full interest credit for each year.

(5) Partial attritition represents decreased subsidy - usually due to income increases.

(6) Record budget estimate for decreased subsidy due to partial attrition.

(7) Complete attrition: where borrower no longer receives interest credit due to increased income, payment in full, sale of property, death, etc.

(8) Record amount of subsidy no longer expended due to complete attrition.

(9) Borrowers who previously received no or less interest credit and are now added to the subsidy roles, or have had their subsidy increased

(10) The dollar increase due to interest credit additions.

(11) Net realized equals full interest credit less attrition. This amount should be reported in Unified Budget.

(12) Recapture estimate provided for information only, and as a guide to probable long range cost. Not accepted in the unified budget, recapture should be shown in the credit budget.

Senator HECHT. Mr. Robert Rapoza, legislative director, National Rural Housing Coalition.

STATEMENT OF ROBERT RAPOZA, LEGISLATIVE DIRECTOR, NATIONAL RURAL HOUSING COALITION

Mr. RAPOZA. Thank you very much, Mr. Chairman. We also have a full statement that we would like to submit for the record.

Senator HECHT. It will be included in the record.

Mr. RAPOZA. I would like to just quickly make four or five points; first of all, by saying that we would like to request the opportunity to respond in more detail to Mr. Stockman's work on the rural housing programs. We think, for example, there is more than one way to look at the program and the success that it has had, and we would like that opportunity.

SUBSTANDARD HOUSING HAS FALLEN BY 42 PERCENT

The points that I would like to make are basically five. First, this program has worked. Since 1970, the incidence of substandard housing has fallen by 42 percent, and millions of poor households have had the opportunity to obtain decent housing.

Beyond this, job opportunities have been created in rural areas through the infusion of Federal mortgage dollars that have been run through the Farmers Home Administration offices, and I should add that part of the success of the program is the fact that for the entire history of the Farmers Home Administration Housing program the delinquency rate comes to less than 1 percent for the entire portfolio.

Two, the poor have been served. As I think Hal has pointed out, the average income on the section 515 Program comes to something less than $8,000 per year, and by law the title II program must now serve the poor and the very poor. So in fact, these programs have been targeted well. We think there could be some improvements, but they in fact serve the poor.

The third point that I would like to make, we don't find any evidence that would indicate that on a national basis that rural areas have the financial institutions or the dollars to replace the Farmers Home Administration subsidy lending programs.

For example, we have, I think, 520 counties with no S&L, and overall, nonmetropolitan S&L's have less than half the assets of the S&L's that are located in metropolitan areas.

We also doubt that the HUD section 8 or Voucher Program by itself can address the rural housing problem.

For example, we found that in northern Worchester County in Massachusetts large families holding section 8 certificates cannot find standard units to rent. The effect is that with a high incidence of substandard housing you cannot simply provide vouchers and expect the problem to be solved. We continue to have to have an increase in the supply of standard housing for rural areas.

The final point that I would like to make, Mr. Chairman, is that in fact this budget proposal provides a cut for metropolitan housing. The fact is that right now somewhere in the area about 20,000 HUD units go to rural areas. With this budget proposal, 50,000 HUD units will go to nonmetropolitan areas, thereby decreasing

the units for the big cities and for the people there that need decent housing.

And I should add that HUD section 8 programs have been cut by 60 percent since 1981, and this provides a further cut.

Thank you very much, Mr. Chairman.

[The complete prepared statement follows:]

NATIONAL RURAL HOUSING COALITION

2001 S Street, N.W., Suite 500, Washington, D.C. 20009 • phone: (202) 483-1504

April 10, 1985

TESTIMONY OF

ROBERT A. RAPOZA

BEFORE THE

SUBCOMMITTEE ON

HOUSING AND URBAN AFFAIRS

OF THE

BANKING, FINANCE AND URBAN AFFAIRS

COMMITTEE

UNITED STATES SENATE

APRIL 15, 1985

Mr. Chairman, I am Robert A. Rapoza, Legislative Director of the National Rural Housing Coalition (NRHC). NRHC is a national organization which lobbies and advocates on behalf of rural low income housing and community development needs. We have appeared before this Subcommittee many times in the past and appreciate the opportunity to testify today.

A Tradition of Partnership

For more than half a century, the federal government has pursued a partnership with rural people to help them and rural America grow and prosper. This partnership has enjoyed bipartisan support in the Congress because it has helped to make life better for the rural citizens of every state. For example, it has contributed to the growth of decent housing in remote areas and the provision of community facilities in small towns. Such improvements in the rural environment lead naturally to population growth and increased local incomes. The rural family, the elderly, and the disadvantaged have all benefited from positive government efforts in rural America.

As we reviewed the President's budget, we were shocked by the details of the specific program reductions and terminations. Perhaps more disappointing than the gruesome details of this plan, was the overriding fact that the Administration proposes to end the successful partnership between rural people and their government. More than a budget with zeroes, this is a budget with no hope. Specifically, this budget offers no hope for the 2.2 million rural households living in bad housing. It offers no hope for the 2.6 million rural households with incomes of less than $10,000 who pay up to 60% of their income for shelter. It offers no hope for the 14 million rural households drinking bad water.

The Fiscal '86 Budget

Mr. Chairman, as you know, the Administration's fiscal '86 budget proposes to terminate all rural housing programs administered by Farmers Home Administration (FmHA). Starting in FY '88, we are told rural housing assistance would be provided through the untested voucher program of the Department of Housing and Urban Development (HUD).

We strongly oppose this sweeping proposal. Our reasons for urging you to support the current FmHA programs follow:

1. Elimination of the direct federal credit assistance provided by FmHA would reduce rural housing production dramatically. Rural areas simply do not have the money or credit to compensate for the FmHA units which would be lost if FmHA housing assistance were to be abolished. According to the Federal Reserve, for example, non-metro banks have only 64% of the asset level of metro banks and non-metro savings and loans (S&Ls) have less than half the assets of their urban counterparts. Over 500 rural counties do not have a federally chartered S&L. Rural areas, with about 30% of the nation's population, have less than 17% of the nation's savings. The recent downturn in the farm economy has further decreased the availability of credit. The number of rural banks classified by the FDIC as troubled banks has doubled to over 200.

Metro and Non-Metro Per Capita Savings
Overall

	Total $	Per Capita
Metro	$1.47 trillion	$8,300
Non-Metro	$303.6 billion	$5,317

S&L Only

Metro	$382.7 billion	$2,245
Non-Metro	$68.9 billion	$1,206

2. HUD as presently structured simply cannot adequately replace the FmHA housing delivery system. HUD regional offices do not reach the remote communities served by FmHA county offices. HUD low-income housing assistance is entirely rental, but rental assistance by itself cannot meet the needs of rural areas where rental stock is lacking.

   In addition, HUD's available low-income housing resources are sorely insufficient, having themselves been cut by two thirds since FY '80. To dilute these further by attempting to use them to replace the FmHA housing resource would be to the disadvantage of all low-income households whether urban or rural.

3. The rural housing problem is not just a smaller version of that facing urban areas. Rural areas have over 50% of the nation's units with inadequate plumbing. A recent HUD study indicates that the incidence of bad housing in non-metro areas is really twice that of metro areas. Over 90% of the units without adequate drinking water or an acceptable means of waste disposal are located in rural areas.

   Because there simply is not the housing stock available, rural housing cannot, in the short

term, be relegated simply to the HUD rental assistance program. In the long term, requiring an even split of HUD funds for new construction between urban and rural areas will provide rural areas with barely a fraction of the assistance provided by the current FmHA program.

4. If we are to make significant progress towards the goal of a decent home and suitable living environment for all our rural citizens, we must continue the federal programs which provide direct mortgage credit, loans and grants for rehab of existing units, and support for community facilities.

   Unfortunately, the last few years have witnessed reductions in federal rural development programs, to the point where no further reductions are possible without jeopardizing the nation's commitment to its stated goals. The chart below indicates some of those reductions, specifically in the housing resources.

FmHA Rural Housing Programs
Fiscal Years 1980 - 1985
(dollars in millions)

	1980	1981	1982	1983	1984	1985	1986
# Units Assisted	154,642	131,011	114,126	93,040	86,780	92,070	4,500
$ App'n (Actual)	4,219	3,941	3,883	3,450	3,429	3,344	80
Current Services*	------	4,616	4,987	5,189	5,383	5,586	5,831
Net Decrease	------	-675	-1,739	-2,134	-2,422	-2,422	-5,751

*1980 Budget level, adjusted to account for inflation.

The number of housing units assisted by FmHA has declined 40% since 1980, while the dollar level of the federal effort dropped 42%. The cumulative cuts in rural housing programs over the period from 1981 to 1985 total more than $8 billion.

These reductions have come primarily in programs for very low-income households, including rental assistance, farm labor housing loans and grants, and home repair loans and grants.

As a result of these reductions and increases in construction costs, production is down by about 40%. Levels for programs serving very low-income households have been reduced even further.

Mr. Chairman, we urge this Committee and the Congress to reject the Administration's budget proposal and to continue FmHA's rural housing programs.

NRHC Recommendations

We do have a number of recommendations for your consideration on H.R. 1. I would like to address three which we think are particularly important and which have been the focus of Subcommittee hearings over the past 18 months.

As you know, the 1983 Housing Act required that at least 40% of Section 502 funds go to very low-income households (those with incomes below 50% of median). As the Subcommittee found, increases in land, construction costs and high taxes make it difficult in many states for FmHA to meet this requirement. In many states, a 1% loan does not provide a deep enough subsidy to house a family with an income below 50% of area median income.

We supported the targeting provision and continue to do so. However, there must be additional subsidy provided to ensure that FmHA can meet this statutory requirement without putting very low-income households at undue financial risk.

To accomplish this we recommend the creation of a deferred mortgage Section 502 program. Under this program, a very low-income family would first be qualified on the basis of the 1% loan. If it does not qualify, FmHA could defer up to 50% of the mortgage in order for it to meet affordability standards set by the agency.

The loan would be treated like any other Section 502 loan: the family would be subject to income certification on a regular basis. If its income goes up so will its payments. If it chooses to sell the house, its equity will be recovered to offset the cost of subsidy provided by the government.

We estimate that under this program, average income necessary to qualify for a $40,000 mortgage loan will drop from $11,000 to $8,000. The additional cost to the government will be about $1,000 per unit per year.

As we have pointed out, there is a lack of adequate housing stock in rural areas. This, along with recent reductions in rental assistance funds, has made it increasingly difficult for very low-income people to gain decent housing. The deferred mortgage Section 502 program would provide an avenue for increased assistance to very low income households at a relatively modest cost. We urge the Committee to adopt this proposal.

Mr. Chairman, the value we place on the FmHA delivery system does not obscure our perception of its problems. In October 1983 we participated in a hearing before the House Housing Subcommittee which focused on the treatment of consumers by FmHA. We continue to be concerned that prospective and current FmHA borrowers often have their rights trampled by FmHA personnel, yet have little recourse for such administrative action.

The current FmHA appeal procedure (7 CFR Part 1900 Subpart B) relies totally on the use of agency personnel to decide the merits of request for relief brought by appellants. Moreover, appeals procedure stops at the state director level when the appeal involves a decision at the county office. Rural housing applicants and borrowers complain that FmHA officials often ignore facts in making decisions on their appeals. Many of those adversely affected by FmHA decisions feel the agency's hearing and review officers are unduly influenced by a recognition of alleged FmHA administrative difficulties and by a reluctance not to judge their peers negatively.

Fiscal year 1983 data (FmHA report 1992-A5) seem to bear out the allegations by critics. In all appeal hearings that year, 75.7% of FmHA housing decisions and 83.5% of farmer program decisions were upheld. Only 8.2% of the 24.3% housing cases, and 5.3% of the 16.5% farmer program cases not upheld were overruled without modification.

Accordingly, we have developed an appeals procedure which is outside the current FmHA system and which has clear guidelines, meaningful timetables for action, and provides for independent hearing officers and review by an Administrative Law Judge. It is essential for protection of consumer rights and we urge its positive adoption.

In a further attempt to ensure that all FmHA borrowers are treated fairly, we urge the Subcommittee to adopt a series of changes that we refer to as "Truth and Equity in FmHA".

For example, any applicant for FmHA assistance should be permitted to be assisted and accompanied by another individual, at all stages of the application process and at any FmHA office. We understand that instances have arisen in the past where the local office has refused to meet with an applicant who is accompanied by another individual. We think this is inexcusable, and creates an unfair burden for those applicants most in need of aid.

We further urge that FmHA make accessible to the public agency policies that influence decision-making on the county, district, state, or national level, regarding the award of any type of assistance. It is essential for applicants to know upon what criteria they are being judged. We have been informed of many instances where applications are denied, based on some unwritten "policy".

In order to improve accountability and openness, we recommend that the following requirements be adopted:

1. Establishment of a Housing Advisory Board for each state office. The representation on this

board will include consumers/tenants, nonprofit developers, for-profit developers, and local government.

2. A requirement that each state office develop a plan for allocation and administration of housing funds based on an assessment of state need. This plan is to be developed in conjunction with the Housing Advisory Board and is to establish goals and objectives to meet rural housing needs.

3. A requirement that each FmHA state office publish quarterly reports on progress made in meeting the goals of the housing plan.

4. A requirement that FmHA national office publish monthly reports, on a detailed, categorical basis on the use of funds.

5. A requirement that FmHA national office publish on a quarterly basis the borrower/tenant characteristics including income, age, race, family characteristics and average subsidy provided.

In addition to these recommendations, we urge the Committee to implement many of the recommendations of the Government Accounting Office (GAO) regarding the Section 502 program. We have long been on record as supporting increased outreach efforts for very low income households, particularly those living in bad housing, & decreasing house costs by making the units more basic. In addition, NRHC developed the proposal to extend the term of the Section 502 program to 38 years. The GAO testimony makes some important contributions to the improvement of rural housing programs.

Summary

Mr. Chairman, we recognize the difficult choices facing the Committee. The proposed budget resolution recommends the termination or reduction of virtually every program under your jurisdiction. If the resolution is approved, dramatic changes will no doubt occur in federal housing and community development programs. As you prepare to meet the challenges of the budget, we hope you will keep in mind the following:

1. Rural housing problems are unique from that of urban problems. Dispersed population, and high incidence of substandard housing require a delivery system located in rural areas and subsidized financing of new units.

2. There continues to be a severe lack of credit in many rural areas. We are not aware of data which would indicate that, on a national basis, rural areas have a fair share of the nation's credit.

3. The federal rural housing programs have worked. These programs have placed millions of people who could not otherwise find housing gain a decent place to live. In 10 years the incidence of bad rural housing decreased by 42%. There are still some six million rural people living in bad housing. In many cases, FmHA housing assistance provides the only chance they will have to gain decent housing. No other federal program provides sufficient subsidy, or the delivery system, to house the rural poor. While some modifications may be necessary, we believe that the rural housing program has worked and should be continued.

RAR/ysg

Senator HECHT. Thank you very much.

Mr. Thomas Runquist, vice president, Council for Rural Housing and Development.

STATEMENT OF THOMAS RUNQUIST, VICE PRESIDENT, COUNCIL FOR RURAL HOUSING AND DEVELOPMENT, ACCOMPANIED BY CHARLES EDSON, LANE & EDSON, COUNSEL

Mr. RUNQUIST. Yes, Mr. Chairman. I am accompanied today by Charles Edson, of Lane & Edson, counsel for our organization.

I would like to submit our testimony for the record.

Senator HECHT. Thank you.

Mr. RUNQUIST. Also, I would also like to have an opportunity to submit additional information that differs considerably from Mr. Stockman's that was delivered today.

Senator HECHT. Absolutely.

Mr. RUNQUIST. I would like to skip to a particular point of new directions and go through this briefly.

Those that are concerned with affordable, decent rental housing can take great pride in the achievements of the section 515 Program because basically it is a sound program that ideally should continue in its present form.

Unfortunately, we do not live in an ideal world, especially when it comes to Federal budgetary considerations. The problem is especially acute this year because in calculating the cost of the Farmers Home Administration Housing Program, the Budget Committee has scored the total amount of rural housing loans as a budget charge.

BUDGET DEBIT OF $900 MILLION

Accordingly, section 515 is viewed as a budget debit of $900 million, although in fact virtually every penny of that amount will be repaid to the Federal Government, as the $900 million represents repayable loans.

Accordingly, we are faced with a budgetary practice that produces a deceptively high cost to the program. There is, however, a possible remedy to this situation.

In meetings with your staff and others, we suggested that the rural housing insurance fund of the Farmers Home Administration sell mortgages that it now holds into the private market. In effect, funds advanced during the past years by the Government would be restored to it. Private dollars would replace Federal dollars. This would produce a negative outlay that would more than offset this year's new loan authority.

The same mechanism works for section 502, and both the sections 502 and 515 loans could be packaged together and sold by the rural housing insurance fund.

In future years, Farmers Home Administration could sell the rural loans on an ongoing basis. Naturally, the Government would need to continue to subsidize the interest rate, but that would be the only, and true, ongoing charge to the Government.

We believe that another longrun alternative should be explored. Instead of Farmers Home Administration making direct loans and selling them to the private market, we believe that in the case of

multifamily housing it would be possible in many areas for non-Federal lenders to make direct loans to the developer with a Farmers Home Administration loan guarantee analogous to the loan insurance provided by the Federal Housing Administration.

There is a very important caveat, however. To produce affordable rental housing, the Farmers Home Administration would still have to subsidize the interest rate on those loans.

This is a radical departure from present practice. Accordingly, we would not recommend this change all at one time. Instead, we suggest that it be attempted on a demonstration basis during fiscal year 1986, with 10 percent of the funds allocated to section 515 being utilized under the loan guarantee experiment. If the experiment proves successful, the program could be broadened to encompass a significant, if not total, portion of section 515 multifamily loans over several years.

We have looked into the technical aspects of this, and we have many suggestions along that line. But we do believe that in all events Farmers Home Administration should be the lender of last resort. Accordingly, if neither a private lender, or State, or local agency is willing to make the loan, even with a loan guarantee, then on a standby basis Farmers Home Administration should do the lending.

Many details need to be thought through to effectuate this change. The council is ready to work with the committee in this regard. We believe that the section 515 program helps so many low-income rural Americans that it must continue, but our members are willing to look at new ways to get the same vital job done. In any event, the Federal Government must remain a partner in this essential venture.

One other comment. Most of the developers in our council are small and make reasonable profits. We are very proud of our involvement in this program, and we certainly ask that if you as an investor—would you or any other prudent person invest your money in a $200,000 loan, for an 8-percent return on $200,000, which would be less than $1,600?

It would be $800 a year, which would be the allowed return. You are also locked in on that program for 20 years.

Senator HECHT. Having been in banking for 25 years, no.

Mr. RUNQUIST. I should also mention that concerning market need, we must do a market survey before we go in them, so that is not a factor. The default rate on section 515 is less than 1 percent.

Thank you for the opportunity.

[The complete prepared statement and additional information submitted for the record follow:]

Council For Rural
Housing And Development

STATEMENT OF THOMAS R. RUNQUIST, VICE PRESIDENT
COUNCIL FOR RURAL HOUSING AND DEVELOPMENT
BEFORE THE HOUSING AND URBAN AFFAIRS SUBCOMMITTEE
SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE
APRIL 15, 1985

Mr. Chairman and members of the Subcommittee, my name is Thomas R. Runquist, I am Chairman of First Centrum Corporation of East Lansing, Michigan. I am pleased to appear before you today in my capacity as Vice President of the Council for Rural Housing and Development. I am accompanied by Charles L. Edson of Lane and Edson, P.C., Counsel to our organization.

The Council is a national association of more than 150 member organizations and seven state associations actively involved in the construction and management of rental housing through the Farmers Home Administration's Section 515 program.

The Section 515 program performs a vital function by filling a desperate need for decent, safe and affordable housing in rural areas and small towns where there are more than 2.2 million occupied housing units that are substandard.

The incidence of inadequate housing in non-metropolitan areas is nearly double that of urban areas. About half of the households living in substandard housing in the FmHA service area have annual incomes of less than $9,000. The average income for a Section 515 tenant in 1984 was $7,742.

Although housing needs are greatest in rural America, the supply of credit to meet those needs is simply not there. More than 550 rural counties do not have federally chartered savings and loans, and the per capita assets of rural banks average only $3,400, or less than half of the $7,000 per capita average in urban areas.

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Section 515 loans are made only after it has been proven that conventional financing is not available. Since its inception in 1963, the program has provided more than 310,000 units of rental housing serving more than 700,000 elderly and low-income tenants.

The program has been tremendously cost-efficient and has an excellent track record. In 1984 the average cost per unit was $32,000, well under the average cost for new rental units. The program is not a grant program, but a loan program with every loan secured by a mortgage on the assisted housing that will be repaid. The default rate on the loan is well below 1%.

In FY 1984, FmHA assisted in the production of more than 80,000 units of rural housing which was responsible for the creation of more than 100,000 jobs. It is estimated that every FmHA-financed unit creates 1.3 person-years of employment, meaning more than 400,000 person-years of employment have resulted from the program.

Section 515 results in good community development. The concentration of people in rental units can mean less Federal, state and local tax dollars spent on street and road construction and maintenance, sewer and water construction as well as public school transportation, and less farmland being diverted to subdivision construction. Often, the location of a Section 515 project in a community has helped attract new industry by providing housing for potential employees. Money spent on Section 515 creates a community asset that lasts for many years as opposed to one shot assistance under most social service programs.

Funding for the Section 515 program was frozen at $940 million from 1982 to 1984. For FY 85 the program was reduced by $40 million to $900 million. The Council believes that further reductions in funding would not only be deleterious to the rural homebuilding industry, but would have a negative impact on those constituents with the greatest need for housing in this country, the rural poor. We urge you to authorize funding at that level for FY 1986. However, as suggested below, there are ways to do such authorization without serious budget impact in both the short run and long run.

New Directions

As noted from the above testimony, those concerned with affordable, decent rental housing can take great pride in the achievements of the Section 515 program. Basically, it is a sound program that ideally should continue in its present form.

Unfortunately, we do not live in an ideal world, especially when it comes to federal budgetary considerations. The problem is especially acute this year because in calculating the cost of the Farmers Home housing program, the Budget Committee has scored

the total amount of rural housing loans as a budget charge. Accordingly, Section 515 is viewed as a budget debit of $900 million although in fact virtually every penny of that amount will be repaid to the Federal government as the $900 million represents repayable loans. Accordingly, we are faced with a budgetary practice that produces a deceptively high cost to the program. However, there is a possible remedy to this situation. In meetings with your staff and others, we have suggested that the Rural Housing Insurance Fund of the Farmers Home Administration sell mortgages that it now holds into the private market. In effect, funds advanced during the past years by the government would be restored to it. Private dollars would replace federal dollars. This would produce a negative outlay that would more than offset this year's new loan authority. The same mechanism works for Section 502 and both the Section 502 and 515 loans could be packaged together and sold by the Rural Housing Insurance Fund.

In future years, FmHA could sell its rural loans on an on-going basis. Naturally, the government would need to continue to subsidize the interest rate but that would be the only, and true, on-going charge to the government.

We believe that another long run alternative should be explored. Instead of FmHA making direct loans and selling them to the private market, we believe that in the case of multifamily housing, it would be possible in many areas for non-federal lenders to make direct loans to the developer with an FmHA loan guarantee analogous to the loan insurance provided by the Federal Housing Administration. There is a very important caveat, however. To produce affordable rental housing, the Farmers Home Administration would still have to subsidize the interest rate on those loans.

This is a radical departure from present practice. Accordingly, we would not recommend this change all at one time. Instead, we suggest that it be attempted on a demonstration basis during FY 86 with 10% of the funds allocated to Section 515 being utilized under the loan guarantee experiment. If the experiment proved successful, the program could be broadened to encompass a significant - if not total - portion of Section 515 multifamily loans over several years.

Statutory authority already exists for guaranteed loans, pursuant to Section 517 of the Housing Act of 1949, authorizing the Department of Agriculture to insure the payment of loans made by lenders other than the United States. Likewise, the interest credit mechanism set forth in Section 521(a) seems workable with direct loans. Pursuant thereto, FmHA pays the difference between the subsidized rents and a market rate determined by the Secretary of the Treasury taking into consideration the average market yield on outstanding U.S. market obligations with

comparable maturities. (Whether this formula produces a true market rate should be examined.) However, Section 521(a) provides for an interest credit mechanism which may not be applicable if the government is not the direct lender, necessitating a statutory change to permit FmHA to make the interest differential payment directly to the lender.

We believe that in all events Farmers Home should be the lender of last resort. Accordingly, if neither a private lender or state or local agency is willing to make the loan, even with a loan guarantee, then on a standby basis, FmHA should do the lending.

Many details needs to be thought through to effectuate this change; the Council is ready to work with the Committee in this regard. We believe that the Section 515 program helps so many low income rural Americans that it must continue, but our members are willing to look at new ways to get the same vital job done. In any event, the federal government must remain a partner in this essential venture.

Thank you for the opportunity to be with you today.

COUNCIL FOR RURAL
HOUSING AND DEVELOPMENT

April 29, 1985

Senator Chic Hecht
Chairman, Housing and Development Subcommittee
Committee on Banking, Housing and Urban Affairs,
U. S. Senate
Washington, D. C. 20510

Dear Senator Hecht:

At the hearing at which our Vice President, Thomas R. Runquist testified on April 15, you granted leave to supplement our testimony to comment on the testimony of David Stockman, Director of the Office of Management and Budget, delivered that day. We thank you for granting us this opportunity.

Attached hereto as Exhibit A is an analysis of the Stockman testimony prepared by the National Rural Housing Coalition. It addresses such subjects as rural rental vacancy rates and the extent of rural substandard housing. We would like to add some specific comments directed to Mr. Stockman's allegations.

First, Mr. Stockman states that the programs are inefficient because large federal tax subsidies go to benefit builders and investors. This statement is fallacious for many reasons. Farmers Home limits the return on a project to 8%; obviously no developer would build under the program for a smaller return than can be received from a certificate of deposit. Knowing this, Congress since 1969 has adopted a deliberate and focused policy of utilizing tax incentives to encourage the construction of low and moderate income housing, so that tax benefits, in conjunction with the limited return, could provide a package attractive to the developer and investor. We are not speaking of "loopholes" but a Congressionally directed social policy that tax shelter means people shelter, as well.

Second, Mr. Stockman sets forth in a table on page 9 of his FmHA testimony a chart reportedly showing investor profit on an FmHA project. The chart assumes that the developer only puts in the required 5% equity and 2% in the general operating account. What is ignored is that in many cases, the developer has to put in significant funds over and above that 7% to make the project feasible. Farmers Home does not allow any return on this excess contribution and thus such excess contributions lower the real return received by the owner. Further, in determining the profitability of an FmHA developer, it should be realized that he or she generally submits many more projects than are awarded due

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to the extremely competitive nature of the program. A losing application means many dollars of unrecouped funds for site options, preliminary plan and the like.

Third, Mr. Stockman states that a small number of builders account for a large total of FmHA supported units. This is contrary not only to the evidence which Mr. Stockman presented, but what we know to be the case as an organization representing developer members. That one developer in California has 18% of the state obligations, another in Florida has 8%, and one in Michigan has 24% hardly supports the contention of exclusivity. Our Council has 150 members throughout the country, many of which are quite small enterprises. Significantly, our membership does not encompass all the FmHA development community which we roughly estimate to number over 1000.

Fourth, it is the truly needy who benefit from the Section 515 subsidy. But for the incentives provided through the 515 program and through the Internal Revenue Code, these projects would not be built at all and the low income families would not be housed. On the other hand, it would be safe to assume that developers and builders would engage in some other line of occupation in order to earn a living. Accordingly, the real losers in the termination of the Section 515 program would be its intended beneficiaries.

Fifth, concerning Mr. Stockman's suggestion that the Department of Housing and Urban Development can administer FmHA programs, many of us have had extensive dealings with that Department. HUD operates through area offices, usually one in a state. Accordingly, it is far more inconvenient to deal with HUD than the FmHA which has generally many district offices within a state of any size. Those who deal with HUD report that that department has difficulties enough administering its own programs and could not handle the extra burden that would be imposed by administering FmHA programs as well.

Sixth, we would like to elaborate on the assertion made on page 14 of Mr. Stockman's testimony that there is a rental housing surplus in rural areas. Our response challenges the fallacies set forth in Mr. Stockman's figures on rental vacancy rates, and their contradiction with the Annual Housing Survey. OMB provides unreferenced rural vacancy figures which are higher than those of the 1980 Census and much higher than those in the Annual Housing Survey. For example, OMB says the rural vacancy rate for the U.S. total is 10.06%, as opposed to an urban vacancy rate of 6.32%. The Annual Housing Survey, Volume E, reports that in 1980 the rural vacancy rate for year-round housing was 2.1% (5.7% for units for rent and 1.3% for units for sale), lower than the urban vacancy rate of 2.8% (4.9% for rental units and 1.5% for units for sale).

Even when one adds seasonal and migrant units into the vacant housing stock, the rural vacancy rate is only 6.6%, according to the Annual Housing Survey. The year-round stock for sale or rent is, of course, a much more valid indicator of available decent housing than are counts which include seasonal dwellings.

Of equal importance, the Farmers Home Administration will not allow a project to be built in a particular area without a careful market survey showing real demand for the project. To determine need for a rental project, one cannot look at national or regional rural statistics, but must ascertain the requirements of a particular area. That is exactly what the Farmers Home Administration does to assure that there will not be the construction of surplus rental units.

Finally, the Council for Rural Housing and Development, after much analysis and discussion with concerned administrative and Congressional staff, suggested the sale of mortgages now held by the Farmers Home Administration as a method of meeting the heavy budget charge the program faces this year because of the placement of rural housing on budget. The sale of mortgages in the secondary market has become a common practice in both the public and private sectors. Indeed, until the advent of the Federal Financing Bank in 1974, FmHA housing mortgages were sold by the agency to the private sector. Accordingly, we take great exception to Mr. Stockman's dismissal of this alternative as trying to benefit "a bunch of junk dealers" who would otherwise "be repossessing used cars." Such gratuitous assertions hardly permit a rational discussion on this important issue.

Concerning Mr. Stockman's concern about defaults on the mortgages sold in the private sector, we do not believe the problem would be generally severe due to the low Section 502 default rate. However, to accommodate those defaults that do occur we propose over collateralization of the mortgages sold so that the purchaser can exchange with Farmers Home a defaulted mortgage for one currently in good standing. Accordingly, FmHA would be in a position to deal with the mortgages returned to it just as it can deal with mortgages that it now holds.

To conclude, Mr. Stockman's attacks on the Section 515 program just don't hold water. We in the private sector are proud of our role in making decent housing available to hundreds of thousands of low income Americans and appreciate this opportunity to make this statement.

Sincerely,

Joseph A. Shepard

Joseph A.Shepard
President

TECHNICAL ANALYSIS OF OMB RURAL HOUSING FIGURES BASED ON READILY AVAILABLE INFORMATION

OMB Director David Stockman's testimony on April 15, 1985 favoring termination of the rural housing programs contains involved assumptions and unsupported findings. Every important point of his testimony rests upon numbers which are unreferenced and which may be questional by statistics from the Census, Annual Housing Survey, and other accepted data sources, as designated below. These include:

* OMB Assumption throughout the testimony: Nonmetro, rural, and FmHA Service Areas are equivalent. (They are used interchangeably.) Generally OMB uses "nonmetro" figures for its "rural" findings; implicit throughout is the assumption that the rural housing target areas are nonmetro areas.)

Assumption Invalid. Nonmetro areas lie outside MSAs and may include cities of up to 50,000 residents. Rural areas lie both within and outside MSAs and include open country and communities of up to 2,500 residents. FmHA Service Areas include towns of up to 20,000 residents outside of metro areas and of up to 10,000 residents, if the area is rural in character, within metro areas. FmHA Service Areas are not only not equivalent to nonmetro areas, but in much of federal program performance they have scarcely overlapped, as HUD low-income housing assistance has tended to be concentrated in the largest nonmetro comunities outside of FmHA Service areas.

Page 1.

* OMB Assumption: There is no failure or problem with housing market financial institutions in rural areas.

Assumption Invalid.

(1) On December 28, 1984 the Federal Home Loan Bank Board identified 523 U.S. counties without a federally chartered savings and loan or branch. Almost all are in rural areas.

(2) Justin Research Associates (1982) in a report for USDA cited evidence indicating substantial outflows of funds from rural areas leading to serious liquidity problems among rural commercial banks.

(3) ERS, USDA (Mikesell, 1983) noted that rural lending institutions suffer from a lack of risk diversification.

(4) The Congressional Research Service (Saltojanes, 1985) noted that almost all rural counties have at least one bank, and was not able to settle the "credit-gap" controversy for rural areas. The report acknowledged that small, conservative rural banks seldom find home mortgages to be a top priority.

Page 2. I

* OMB Assumption: FmHA homeownership is intended primarily for poverty-level households.

Assumption Invalid. FmHA homeownership is intended for low-income households, with incomes under 80% of the area median, and with an emphasis on very low-income households, whose incomes are below 50% of area median. Very low-income households are often above poverty level.

* OMB Finding: Cites "the fact that homeownership even at a 1% mortgage level is unaffordable for below poverty level households most in need of assistance".

Inaccurate. OMB's own figures belie this statement. The breakdown on page 11 of his testimony shows that with the exception of the Northeast, loans are able to reach households with incomes below poverty level, and as low as 84% of poverty level in the South. According to a GAO report, some Section 502 homeownership borrowers had incomes of under $5,000 in 1984, and 83% of all 502 borrowers had assets of under $5,000!

Poverty is a national figure and does not take into account regional income and cost differences.

o For example, consider rural median household incomes for the following states:

Alabama	$12,720
Arkansas	11,531
California	16,456
Connecticut	21,778
Illinois	17,759
Mississippi	11,362
New York	17,114

o The 1984 poverty line, for a nonfarm family of 4 was $10,200 in all of those states.

(2) The Congress has defined low- and very low-income for FmHA in the basic authorizing statutes. The law restricts use to those two income categories and mandates that 40% of funds be used for those households with very low incomes.

(3) FmHA was given authority in the 1983 amendments to make changes which would enable it to better serve very low-income

households. These include financing mobile homes, a 38 year mortgage, use of cost-saving features such as duplexes and townhouses; more use of rehabilitation, etc. The Administration, which proposes to terminate the homeownership program and cites failure to serve low income people as a reason, has effectively stalled implementation of the law.

(4) In 1984 these average incomes were recorded for Section 502 borrowers, indicating a range of incomes served which included poverty-level household.

	Gross	Adjusted
Alabama	$11,452	$10,551
Arkansas	10,074	9,448
California	13,997	13,157
Kentucky	11,081	10,150
Louisiana	11,341	10,330
Mississippi	9,579	8,520
Tennessee	11,790	9,540

The minimum qualifying incomes shown on page 11, none of which were Southern lower-income states, were apparently determined by using an average mortgage at 1% and a tax and insurance rate of 2.1%. The results are somewhat misleading. Consider California:

OMB Minimum Income	$ 13,728
1984 Average gross family income	13,997
1984 Average adjusted family income	13,157

16% of the 1984 California loans were to those with incomes below $10,000.

Page 2. II.

* OMB Assumption: FmHA and HUD run-out costs are equivalent.

Assumption Invalid. The rural homeownership program graduates borrowers on the average within seventeen years, although their original mortgages are for 33 years. This whole section on HUD costs is irrelevant to the FmHA programs.

* OMB Assumption: Federal housing assistance is responsible for the "structural gap between current policy spending levels at 25% of GNP and current law revenues at 19%".

Assumption Invalid. In 1985, CBO reports that all of discretionary nondefense spending, which includes housing assistance along with foreign aid, education, community development, law enforcement, transportation, environmental

regulation, and many other programs, is at 4.3% of GNP. This percentage is projected by CBO to decline to 3.8% by 1990. Defense and interest on the deficit are the only outlay categories projected to increase as a share of the GNP. To attribute the growing structural gap in our budget to the declining percentage of GNP taken up by spending on housing is contrary to logic.

* OMB Finding: "The only way to reduce housing spending is to convert all assisted units to the HUD contract method to achieve near term savings on FmHA loan originations."

Inaccurate. Other ways have been described by GAO, in testimony on the S. 502 program, and by the Rural Housing Coalition. Unlike conversion to the HUD contract method, these alternative cost-saving proposals are compatible with the purpose of the FmHA, to deliver housing assistance to those low-income households in hard-to-serve rural areas.

Pages 3 and 4

* OMB Assumption: The charts on pages 3 and 4 suggest that all assisted housing programs are equivalent to those for rural and nonmetropolitan areas.

Assumption Invalid. They are not an accurate depiction of rural trends.

* OMB Findings:

(a) The housing program outlays chart at the bottom right of page 3 shows outlays rising toward $15 billion in 1985.

This assertion is unsupported. But of course fiscal 1985 is only half over, and figures are now available for only the first quarter. No one knows what actual 1985 outlays will be. Note that the chart shows a sharp 1984 to 1985 rise. A more accurate picture is the 1980 to 1984 record. The 1985 Economic Report of the President shows that federal outlays for construction were $9.6 billion in 1980 and $11.2 billion in 1984. From 1981 to 1984 the increase was from $10.4 billion to $11.2 billion. In other words, from 1980 to 1981 spending rose $0.8 billion, and then from 1981 to 1984 rose only another $0.8 billion. In contrast, from 1975 to 1979 federal construction outlays rose from $6.3 billion to $8.6 billion. These numbers show that federal housing outlays have leveled off sharply.

(b) Outlays for housing have grown, but this is to be expected because housing costs have risen rapidly. Over the past several decades housing prices and values have been one of the most rapidly inflating sectors of the economy. For example, the median value of owner-occupied units was $17,100 in 1970 but had risen to $55,300 in 1981.

(c) According to the charts on page 4, from 1980 to 1983 the number of persons served by assisted housing programs increased from 12.9 million to about 14.5 million (a visual estimate based on the chart). This is a 12.4% increase over those three years. Over the same period, the number of people in poverty grew from 29.3 million to 35.3 million, an increase of 6.0 million and 20.5%. The poverty and assisted housing populations are identical, but these figures do show the general trends. Clearly need was growing much faster than housing assistance in the 1980 to 1983 period.

Page 6, and throughout.

* OMB Assumption: There is little need for subsidized new construction in rural areas.

Assumption Invalid. Even if nonmetro instead of rural figures are used in accordance with Stockman's preference, there is a significant need for new construction. According to HUD's analysis ("Attaining the Housing Goal?" Housing and Demographic Analysis Division), in 1981 there were nearly two million very low-income nonmetro households in physically inadequate housing and over a million in severely inadequate units. There were 900,000 very low-income nonmetro renter households in inadequate units. Twenty-nine percent of the nonmetro very-low-income renter households were in physically inadequate units, not including overcrowded units.

Page 10.

* OMB Assumption: The FmHA multifamily housing programs are providing lucrative subsidies to builders and those seeking tax shelters rather than assistance to the truly needy.

Assumption Invalid. OMB justification for termination on these grounds are misleading for the following reasons:

(1) Profits for developers are limited to 8% of actual initial investment.

(2) Nonprofit developers use syndication proceeds in annuity accounts to substitute for diminishing levels of federal rental assistance.

(3) Does not take into account losses or fact that most developers provide more than the required 5% investment and 2% initial operating capital, to make projects feasible.

(4) FmHA interest subsidy and rental assistance subsidy directly benefit the low and very low income family by reducing what they pay to a proportion of income.

(5) 73.2% of FmHA Section 515 tenants had an average income of $5,964.

Page 12

* OMB Assumption: FmHA efficiency may be measured by comparing its homeownership default rates with those of FHA or VA.

Assumption Invalid. FmHA, FHA, and VA serve entirely different target populations, in terms of income and credit riskiness. Twenty-nine percent of FmHA home mortgage loans in 1979 were to households with incomes of under $10,000, as opposed to 13% of FHA and conventional mortgages, and 5% of VA mortgages. (Characteristics of Occupants and Units of Mortgages Rural Homes, USDA/ERS.)

A more recent analysis by USDA/ERS, presented at a meeting of the American Council on Consumer Interests in March, 1985, found that "The probability of being an FmHA (instead of VA or FHA) mortgage holder increases as income decreases when: the household head is a female; the borrower does not make a downpayment; the house is newer; and the house is located outside an SMSA. The results suggest that FmHA serves a distinct population group and that program criteria are meeting the established targets."

Page 12 FmHA Foreclosure Rate

* OMB Finding: FmHA 1984's 3,887 foreclosure were 6% of the 64,728 loans made in 1982. Therefore FmHA can expect to lose about 9.6% of the value of each loan made.

Misleading and Inaccurate. The foreclosure rate is based on the number of foreclosures out of the overall portfolio, not just loans made in 1982. We examined the data to find the accurate foreclosure rate.

	Actual	OMB
FY 1984 foreclosures	3,887	3,887
Caseload 9/30/83	1,019,074	
Caseload 9/30/84	1,011,803	
Average caseload FY 1984	1,015,439	
Percent foreclosed	0.38%*	6.0%

* During calendar 1984 the foreclosure rate was 0.299%.

The OMB figures would be valid in they had compared 1984 foreclosures on loans made in 1982 to the total number of loans made that year. We checked 4 states with 461 1984 foreclosures and found that only 50 of the loans (10.8%) were made in 1982.

Page 14, and throughout.

* OMB Assumption: Vacancy rates are equivalent to vacancy rates for decent, affordable housing.

Assumption Invalid. There are no data to support this assumption, and there is much experience, especially in rural areas, to counter it.

* OMB Finding: The available housing stock in rural areas is more ample than in urban areas.

Inaccurate. OMB provides unreferenced rural vacancy figures which are higher than those of the 1980 Census and much higher than those in the Annual Housing Survey. For example, OMB says the rural vacancy rate for the U.S. total is 10.06%, as opposed to an urban vacancy rate of 6.32%. The Annual Housing Survey, Volume E, reports that in 1980 the rural vacancy rate for year-round housing was 2.1% (5.7% for units for rent and 1.3% for units for sale), lower than the urban vacancy rate of 2.8% (4.9% for rental units and 1.5% for units for sale.)

Even when one adds seasonal and migrant units into the vacant housing stock, the rural vacancy rate is only 6.6%, according to the Annual Housing Survey. The year-round stock for sale or rent is, of course, a much more valid indicator of available decent housing than are counts which include seasonal dwellings.

OMB could have arrived at its figures, perhaps, by (1) using nonmetro instead of rural Census data, and (2) incorporating seasonal and migratory vacant units into the total vacancy rates. Both methods, as explained above, do not yield useful information about the acceptable vacant stock in the areas served by FmHA.

OMB's inacurate assertions concerning availability of decent vacant stock in rural areas are key to its entire argument for conversion from a new construction to a voucher program.

Pages 14 and 15

* OMB Assumption: The percentages of homes with complete plumbing in urban and rural areas indicate that the urban/rural gap has closed almost completely.

Assumption Invalid. Such a comparison does not take into account differences in urban/rural population sizes. With a fourth of the population, rural areas still have over half of the occupied units lacking plumbing.

Actually, according to Annual Housing Survey figures the incidence of inadequate plumbing has decreased more in metro areas. In 1970, 62.2% of the nation's occupied housing units with incomplete plumbing were rural. By 1981 this rural share had increased slightly to 63.4% percent.

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* OMB Assumption: "If a broader measure of housing quality" (than presence of complete plumbing) "is used, the" (urban/rural) "picture" (of housing deficiencies) "is similar".

Assumption Invalid. Lack of plumbing is rapidly becoming obsolete as an indicator of housing quality. Five percent of rural homes lack complete plumbing, but thirteen percent are physically inadequate. Units lacking plumbing have been replaced largely by subsidized housing and mobile homes, which come equipped with plumbing whether or not they are hooked up to facilities. Rural households are more than twice as likely as urban households to live in severely inadequate units or in mobile homes produced before the federal standard to ensure quality was created.

Rural housing that is either overcrowded or without complete plumbing totaled 1.7 million units in 1981. This is 6.9% of all rural occupied units. In 1981, rural areas had 30.2% of the occupied units in the U.S. but 35.9% of the units with roof leakage and 31.1 percent of the units with holes in interior floors.

Pages 15 and 16

* OMB Finding: "Since 1975, the amount of severely inadequate rural housing has been declining dramatically."

Inaccurate. OMB uses unreferenced figures to show a decline of severely deficient units to 2.26% of the occupied rural housing stock in 1981. This figure is less than half that provided by HUD ("Attaining the Housing Goal?", Housing and Demographic Analysis Division.) According to HUD's figures, the percentage of nonmetro housing which is severely deficient declined from 6.8% in 1975 to 5.5% in 1981, hardly a dramatic decrease. In absolute numbers, the decline was very slight, from 1.56 million to 1.44 million households. While implying by using the term "severely deficient" that it is using HUD's evaluation of housing need, OMB must have used a definition different from that of HUD for "severely deficient" in order to arrive at numbers which supported the Administration view that rural housing need is negligible.

If nonmetro rather than rural data must be used the important figure is the 13.8% of very low-income households still in severely deficient housing in nonmetro areas.

Page 17

* OMB Finding: Between 1975 and 1985 HUD provided over one third of new incremental Federally assisted units in rural areas.

This is unsupported by the evidence. The chart provided compares HUD assistance (to nonmetro areas, presumably) with FmHA assistance (to FmHA Service Areas, presumably). As pointed out above, these are not synonymous. HUD could spend its entire nonmetro housing assistance allocations in cities of slightly below 50,000 residents and never serve the more rural areas covered by FmHA.

Unfortunately, HUD does not have figures on its allocations to rural or FmHA Service Areas. HUD's past nonmetro performance alone, however, would indicate that HUD has little rural interest. Figures for nonmetro areas show that the percentage of HUD's very low-income assistance reaching these areas has steadily declined since 1980. Given a waiver from Congressional requirements that HUD spend 20-25% of its housing assistance funds in nonmetro areas, the nonmetro share fell to 18%.

Given current data resources, there is no way of knowing how significant HUD housing assistance is in rural or FmHA Service Areas.

OMB's table, based on an assumption that FmHA and nonmetro areas are comparable, is inacurate.

Page 18 and 19

* OMB Finding: OMB's charts used to illustrate how the proposed plan will make deep inroads into the numbers of needy families not now receiving housing assistance show that if programs are terminated only 16% of needy families will be unserved in 1990.

Innacurate. OMB's mathematics is questionable. Consider the following:

(1)	Number of families most in need of housing assistance (Extrapolated from OMB's figure in (2) below)	5,892,587
(2)	Number most in need not benefitting from federal housing assistance (56% of (1), above, according to OMB	3,300,000
(3)	Served by FmHA and HUD 1982-1984	400,000
(4)	Existing commitments	287,000
(5)	Served by plan, 1985-1990 (Optimal)	600,000
(6)	Balance unserved	2,013,000
(7)	Balance unserved as a percentage of those not benefitting (3,300,000)	61.0%
(8)	Balance unserved as a percentage of original number (5,892,587)	34.2%

Thus, using OMB's own best case figures, the number unserved (6) and proportion unserved (8) by 1990 appear to be more than twice as high as OMB's findings.

Senator HECHT. Thank you very much.

My first question is to the entire panel, whoever would like to answer. More than one can answer.

As you know, the administration is asking for across-the-board cuts in just about every area of Government spending. The Senate budget assumes there will be no Farmers Home Administration rural housing.

What would you suggest to reduce the cost of rural housing assistance?

Mr. Luke.

Mr. LUKE. Yes, Mr. Chairman.

REDUCE COSTS THROUGH DOWNSIZING

As I indicated in my summary statement earlier, there are a number of opportunities for reducing costs in the section 502 program. Basically, those opportunities are along the lines of downsizing the cost of these units in terms of both living areas and nonliving areas as well as purchasing more houses from the existing private market.

All of these in combination can be used to reduce the cost of rendering assistance to the needy population which the Farmers Home Administration serves.

Senator HECHT. Thank you.

Does anyone else wish to address that?

Mr. WILSON. I would like to support that, Mr. Chairman. There is a site in eastern Kentucky that has been experimenting with serving very, very low-income people in the eastern Kentucky mountains with single-family housing.

They have developed downsized units. That is a superinsulated house that we visited along with Farmers Home Administration personnel and found to be an excellent house but is produced at a much lower cost than in the private market now, and even though it is not financed by Farmers Home right now because they will not adopt some of the recommendations of GAO as yet, it is proving under a loan fund program set up by local churches, and so on, to be an extremely beneficial housing program for very low-income families in the Kentucky mountains.

So it can be done.

Senator HECHT. Anyone else?

Mr. RUNQUIST. Yes; I think we have already answered that to a great extent by privatizing that side of it. The effect of that would be to speed up the time between when an application goes in and the project is awarded. That is a very expensive part, is that start-up time.

The President's Housing Commission acknowledged that. So we think the guarantee program on the private side would be very effective.

Senator HECHT. Thank you. Defenders of section 502 and 515 programs stress that providing the loans are essential and there are few, if any, financial institutions in rural America. Yet, most housing financed in rural areas is funded without direct Government loans.

Why wouldn't insured loans work just as well as direct loans under these programs? Mr. Wilson, Rapoza, or Runquist?

Mr. RAPOZA. The fact is, Mr. Chairman, there are two problems here. The first one is that to house the poor does cost money and you can't get many banks that will provide 100 percent loans for 50 years under the section 515 program, or a 1-percent loan for 33 years under the section 502 program.

So it seems to us anyway that you have to deal with the subsidies that are involved to pay for the housing to house people who don't have much money.

The second point is that historically we have not seen the mortgage funds in nonmetropolitan areas that we have seen in big cities.

Now it's probably true today that there is more opportunity for private financing than in past years. But, the fact is, in the poorer States, we have the largest concentration of bad rural housing. We think you will be less likely to find banks, or I suppose, S&L's, that will make loans that would replace what the Farmers Home Administration does. And that's particularly true with the farm crisis now. In fact, a lot of farm banks are in very bad shape.

Mr. WILSON. Just one example, personal example, Mr. Chairman. I used to operate a nonprofit housing development organization in the State of Massachusetts. We were involved in building homes for low-income families. We went to the local banks in the area to talk about the clientelle that we were trying to serve and the clientelle they were interested in serving, and maybe work out some partnership arrangements with those banks.

BANKS REPLY

And even though we did get some construction financing from the banks, in terms of long-term mortgage financing, the banks told us two things. They told us:

> We can make more money by doing other things with our money than putting them in mortgages, so we do just enough so that we can do a community service with our money. Otherwise, we invest it in other places.

Senator HECHT. What type of interest were you paying back?

Mr. WILSON. On construction loans, we were paying back the market rate of interest. We were looking at whether they would even provide a long-term mortgage loan at the market rate for people and allow income levels that we were trying to serve.

No. 2, their comments, and these were very friendly bankers that we worked with—and their other comment was:

> We are not going to serve that level of income clientelle. We suggest that you go to the Farmers Home Administration with them, because our clientelle are not that low income.

Mr. RUNQUIST. Mr. Chairman, as we said in our testimony, we think it's worth a try. A guarantee or insured program, a demonstration program, as would be a very good idea.

Senator HECHT. Thank you. In many rural areas there are existing housing units that could be rehabilitated to house low and very low income people at decreased cost, less than building new units. If we require that a portion of Farmers Home Administration pro-

gram dollars must be used to rehabilitate units, what would be your organization's reaction to this?

Mr. WILSON. I think, Mr. Chairman, if I could respond, I think that we would probably support a level of dollars to be used for rehabilitation. I have fought the Farmers Home Administration for years relative to the rehabilitation of old schools into apartment units, which has worked very successfully for us, using existing stock in rural communities.

I think we would support that because there is some usable stock out there that can be rehabilitated, and the Farmers Home Administration has been somewhat resistant to doing that kind of rehabilitation.

We suggested some time ago that the Farmers Home Administration adopt the HUD guideline for rehabilitation rather than the guideline that they have for rehabilitation that is more costly. The current Farmers Home Administration, even though they agreed that's a good thing to do, has lagged for a considerably long time on making these changes. I don't know if that provision has been implemented yet, which would reduce the cost.

I think some kind of indication to Farmers Home Administration that they should participate in a rehabilitation program would be beneficial.

Mr. RUNQUIST. Mr. Chairman, we have no philosophical difference whatsoever with that. But we do question from our experience with our members, we have a serious question about the availability of stock for rehab in rural areas. It's a very serious problem.

We also severely question whether the cost is going to be any less than new construction.

Senator HECHT. Thank you. Let's go right on.

GAO's testimony indicates that many units are built with more bedrooms than the family needs. The house may be easier to sell, but the program costs per unit are much more expensive.

Let me first ask Mr. Luke how does this Farmers Home Administration policy compare to HUD's subsidy program?

Then I'd like to ask each of the rest of you to comment on why our primary objective shouldn't be to shelter families rather than worry about the resale market.

Mr. LUKE. Mr. Chairman, as of today, Farmers Home Administration has no definitive guidelines on matching family size to households. On the other hand, HUD's subsidy program, as well as the section 235 program, does make an effort to match household size to the size of the units as well as subsidies.

For example, in HUD's section 235 program, it does not allow single family households to purchase section 235 units. And we note in the statement roughly 17 percent of all Farmers Home borrowers are single person households. Many of those are likely to be residing in three bedroom units.

Senator HECHT. Thank you. Does anyone else want to comment?

TARGETING OF SECTION 502 FUNDS

Mr. RAPOZA. Mr. Chairman, in December 1983, we wrote to Farmers Home Administration and we met with them to discuss how they planned to implement the 40/60 requirement on the tar-

geting of section 502 funds. We urged them at that time to require their State offices to reduce housing costs by 15 percent right across the board for the section 502 program.

They said, of course that was something they would think about and we think that the goal for the Farmers Home Administration ought to be to build modest housing for the poor. They don't do that as much as they should now because of the concern with the retail value. And we think that some requirements that they reduce costs are appropriate.

Senator HECHT. Thank you very much.

One last question. I know you stated that we should continue the current Farmers Home Administration programs. Aren't there also some portions of rural housing's needs that could be met through the Voucher and HUD Rehabilitation Programs?

Mr. Wilson, Mr. Rapoza or Mr. Runquist, would any of you like to answer that?

Mr. RAPOZA. That's true, Mr. Chairman, because we do have 2.6 million households who pay more than 35 percent of their income for shelter. But the fact is we also have over 2 million households who currently live in substandard housing. And we don't believe that we have simply got the standard units out there for them to be housed.

CONTINUE THE RECONSTRUCTION PROGRAM

Because of this, we continue to urge the Congress to continue the reconstruction program because we think there's still that need and we can't simply get by with the vouchers.

Senator HECHT. Does anyone else want to comment on that?

Mr. RUNQUIST. Yes, Mr. Chairman, I think we would like to emphasize once again where these projects are being built, with the targeting system through the use of the section 515 program; these communities have the lowest income, the highest unemployment, the least desirable characteristics.

And because of that, because it's a depressed area, there has been no construction there in many years so the availability of housing stock really is, in fact, a major problem. That's why, in rural areas, we must be able to continue development of that housing.

As far as getting to the lower income people, no question about it, interest subsidy is not enough to get the rents down low enough, so the use of a voucher system in that case would be ideal.

So the answer is yes.

Mr. WILSON. Mr. Chairman, I would like to make a comment about that, too. It's very clear that there are some areas where there is existing stock where a Voucher Program could work successfully, because there are some existing section 8 programs that are working successfully in rural communities where there is adequate stock.

I think our concerns are two. One, there are vast areas in the rural parts of the United States where there are no units, and you've heard that over and over.

Another concern though would be that in areas where there are existing units and a Voucher Program may well work, there's got

to be some kind of mechanism to carry that Voucher Program. In many rural areas there is simply no housing authority and no housing organizations to operate that kind of program.

One must think through carefully that kind of delivery mechanism, whether it exists in rural areas, and the present excellent FmHA delivery mechanism.

Senator HECHT. Thank you. With that, we will conclude the hearing.

[Whereupon, at 5:10 p.m., the subcommittee adjourned the hearing.]

[Additional material supplied for the record follows:]

STATEMENT

OF

THE AMERICAN BANKERS ASSOCIATION

ON S. 667

AND RELATED HOUSING LEGISLATION

COMMITTEE ON BANKING HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

April 15, 1985

We would like to thank you for the opportunity to present the views of the American Bankers Association on S. 667, The Housing and Community Development Amendments of 1985 and housing related matters contained in the FY 1986 budget.

The combined assets of our nearly 13,000 member banks represent approximately 95 percent of the industry total. While our members range in size from the smallest to the largest banks, approximately 85 percent of them have assets of less then $100 million.

Banks Role in Housing

The home mortgage market is the largest private capital market in the U.S., with over $200 billion in home mortgages originated annually by all lenders. Only the debt requirements of the Federal government exceed the annual credit requirements for home mortgages.

In order to raise the enormous capital required for mortgage lending, a complex network of lenders, government agencies, and investors has been developed to deliver mortgage loans to the millions of families and individuals buying a home each year. Two of the largest sources of mortgage credit are savings and loan associations (of which there are about 3,500 institutions) and commercial banks (of which there are about 14,500 institutions). Other major home mortgage lenders are the mutual savings banks (400 institutions), mortgage bankers and life insurance companies.

Banks play a very important role in meeting the housing needs of the nation. They participate in the origination and provision of mortgage funds for residential housing and also provide construction financing for the infrastructure which provide services to the homeowner. Banks originated $18.5 billion in residential loans during the first six months of 1984, over 16 percent of the total. Moreover, as of December 31, 1983, 13 of the 25 largest mortgage

banking companies in the U.S. were subsidiaries of banks or bank holding companies.[1] Commercial banks held $178.6 billion in residential mortgages at the end of the second quarter of 1984, ranking third only to the savings and loan industry and mortgage pools or trusts in these loans.

The secondary mortgage market has become an increasingly vital segment of the total residential financing system. Banks contribute significantly to the support of this market by holding certificates of participation in pools of residential mortgages issued or guaranteed by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC). As of June 30, 1984, banks held $29,8 billion in GNMA, FNMA and FHLMC participation certificates and an indeterminate amount of the debt securities of these agencies and the Federal Home Loan Banks. In addition, banks held over $650 million of privately-issued certificates of participation in pools of residential mortgages.[2]

Through construction lending, banks provide the short term funding necessary to the construction of housing. At the end of the second quarter of 1984, banks held $21.1 billion in residential construction loans, 34 percent of the total.

Federal Government Presence in the Credit Market

Housing has become more integrated with the capital markets. Over the past several years we have witnessed a dramatic shift away from the more traditional sources of mortgage funds, i.e., savings accounts and mortgage repayments, to a greater reliance on the capital markets. The relationship between mortgage finance and the capital markets industries has consequently changed with major implications for the future financing of the nation's housing needs.

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[1] American Banker, May 7, 1984.
[2] Federal Deposit Insurance Corporation, October 1984.

The integration of the housing finance market and the capital market has been aided to a large degree by the deregulation of financial institutions and market developments. Previously, banks and thrifts provided the major conduit for most consumers to invest their savings. The majority of savings dollars were deposited in federally regulated and capped savings accounts which,in turn, provided the primary pool of funds from which financial institutions drew to finance mortgage loans. The deregulation of the liability side of the balance sheets of banks and thrifts, the increased competition from nonbank competitors, such as money market funds, and volatility of interest rates have prompted banks and thrifts to use the secondary mortgage markets for funds to finance home loans. This resulting integration implies that any positive or negative influence on the capital markets influences the housing market in much the same way.

One of our main concerns is the increased presence of the government in the credit markets. This comes about in two ways, the need to fund the federal budget deficit, and indirect government participation through various programs such as guaranteed loans, direct loans and borrowing by government agencies to fund specific areas of the economy. Indirect government participation will be discussed later in the section on user fees.

The federal government has significantly increased its presence in the capital markets through the funding of the budget deficit. Our Association is deeply concerned that the growing government presence is and will continue to have an adverse effect on the availability of capital for housing finance. Conversely, a diminished government presence in the capital markets will benefit the housing market as well as the economy in general.

The American Bankers Association believes that urgent action is needed now to restrain the growth of Federal spending and borrowing. We believe the

priority goal of economic policy should be the achievement of long term stability with less inflation, lower interest rates, lower unemployment, more steady long term real growth and a stabilization and eventual decline in the rate of Federal debt to GNP. Long term stability can best be achieved by restraining the growth of federal spending, thereby allowing more private sector savings, investment, and job creation.

Our Association's Economic Advisory Committee has developed a set of recommendations concerning the federal budget. These recommendations advocate reducing spending growth in all areas with tax increases to be consumption-oriented and enacted only after promised expenditure reductions have been achieved. A copy of these recommendation and the rationale for them is attached.

User Fees

The Administration has proposed, and it has been included in the Senate-White House budget agreement, the imposition of fees on debt and asset transactions of government sponsored enterprises.

FNMA (Fannie Mae) and FHLMC (Freddie Mac) are government sponsored enterprises which receive benefits from a special relationship with the Government including items such as exemption from SEC registration, and indirect lines of credit to the U.S. Treasury. Other federally sponsored programs also receive financing and benefits from the Government. As a result of these benefits, they have a competitive advantage over other participants in the markets in which they operate, including commercial banks. Although they were set up to serve market segments whose needs were not being met, since their initiation, many of the markets have become well developed and private firms now

participate. However, the private firms are at a competitive disadvantage because they do not enjoy the special advantages extended to government sponsored enterprises.

Our Association supports the general concept of user fee as a price for access to a Treasury line of credit for FNMA and FHLMC. We feel such fees must be directly and appropriately linked to the value of the benefit received by the agency and should not be established merely as a revenue raising mechanism. We support the concept of a VA and FHA funding fee to the extent that each is directly related to the cost of doing business and that "self sufficiency" should be achieved in each program. With regard to GNMA, we recommend that it be exempted from any user fee to the extent that its programs are undertaken in support of low income housing or mandated by Congress.

New Products and Services

Our Association supports the goal of a healthy and active housing industry. One of the ways to achieve this goal is to maintain the health of the industries which supply funds to the housing market. Expansion of the products and services that commercial banks are allowed to offer will help to ensure the preservation of the safety and soundness of our banking system as well as benefit consumers and enhance the competitive environment. While there are many possible areas of expansion of products and service, I would like to focus today on those most directly related to housing.

We believe that bank holding companies should be permitted to broaden their involvement in secondary mortgage markets by underwriting and dealing in mortgage-backed securities. Congress has previously authorized banks to underwrite and deal in the revenue bond obligations of state and local housing finance agencies as well as to participate in underwriting and dealing in the

obligations of the Federal National Mortgage Association, the Federal Home Loan Mortgage corporation, and the Government National Mortgage Corporation. In addition, banks actively engage in the origination of mortgages and form mortgage pools. Allowing bank holding companies to underwrite and deal in private mortgage-backed securities is a logical extension of that authority.

Our Association also supports increased real estate authority including the ability of bank holding companies to engage in real estate investment and development, and offer real estate brokerage services. For many bank holding companies, both large and small, real estate equity investments represent a way to capitalize on existing experience and increase profitability through activities that are closely related to current bank activities. Through equity investments, bank holding companies and developers would have greater flexibility in structuring lending plans in ways that will enhance the financial stability of development projects. The benefits to bank customers and consumers in general are obvious. Increased financing for real estate projects, reducted risk in the banking system and potentially lower costs for bank services are just some of these benefits.

We believe that all bank holding companies should be authorized to offer real estate brokerage services to the consumer. The real estate broker brings together and represents the parties to a property transaction. Because commercial banks have expertise in the area of mortgage and real estate finance, a natural market for real estate brokerage service exists for their holding companies. Currently, a number of real estate brokerage networks are becoming involved in mortgage banking and are entering the insurance and securities business. The justification for these activities is to provide customer services by generating home loan money on a continuous basis. But there is no doubt that these mortgage banking operations will be in direct competition with local

lenders. We believe that the demand for mortgage financing and real estate services over the foreseeable future is so great that the consumer will benefit by providing the authority for bank holding companies to enter the brokerage business on the same terms that the brokerage companies are allowed in banking. This authority would provide for greater service to the consumer, more competition in the marketplace, and could result in substantial savings in the real estate sales market.

Conclusion

Thank you for this opportunity to present our views on various housing related issues. There are many factors which enter into keeping an active, vigorous housing market that is able to meet the housing needs of the American public. The commercial banking industry is committed to being a vigorous participant in the provision of housing to the American people and in the continued expansion of our economy in other areas.

American Federation of Labor and Congress of Industrial Or

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April 17, 1985

Honorable Chic Hecht, Chairman
Subcommittee on Housing and Urban Affairs
Committee on Banking, Housing and Urban Affairs
United States Senate
535 Senate Dirksen Building
Washington, D.C. 20510

Dear Mr. Chairman:

On behalf of the AFL-CIO, I am submitting for inclusion in the hearings record of March 22 and 25 prepared statement on the Administration's proposed Housing and Community Development Amendments of 1985, S.667.

Sincerely,

Ray

Ray Denison, Director
DEPARTMENT OF LEGISLATION

Statement of the AFL-CIO on the Administration's Housing and Community Development Amendments of 1985, S.667 to the Housing Subcommittee of the Senate Committee on Banking, Housing and Urban Affairs

April 4, 1985

The AFL-CIO welcomes this opportunity to submit for the record of hearings held on March 22 and 25 its views on the Administration's proposed Housing and Community Development Amendments of 1985, S.667.

When the AFL-CIO Executive Council met in February it adopted policy statements on the national Job Deficit and the Budget Deficit, urging, among other things, that these pressing national problems be addressed. In relevant part, the Executive Council had the following to say about national housing and community development policies:

> To meet the nation's continued housing needs, Congress should reauthorize and expand the program that the Reagan Administration has devastated.

In this spirit, we strongly would reject and oppose S.667 the Administration's housing authorization bill as a negative, do-nothing approach which fails to address critical national problems.

Rather, we favor an approach such as through H.R.1, the Housing Act of 1985, which would authorize funds for additional assisted low-rent public housing, housing for the elderly and handicapped, rural housing and a new assisted homeownership program for families of up to median income. The number of housing units that would be provided for people of limited income would be small relative to the need, but would offer relief to some and hope to others. It would certainly be a great improvement over the moratorium proposed by the Reagan Administration.

Community Development

The community development title of the Administration's bill contains a 10 percent reduction of Community Development Block Grant funds, a shift in the allocation of funds as between entitlement areas and states and elimination of the Urban Development Action Grant program. These changes, combined with the curtailment of rural development efforts of the Farmers Home Administration and other plans contained in the President's 1986 budget, would cripple local community development efforts in the U.S. and lead to the spreading of slum conditions in our cities and fewer job and business opportunities. The block grant changes alone would result in a reduction of 24 percent in the Community Development Block Grant program efforts in entitlement cities, according to the House Committee on the Budget.

The AFL-CIO strongly objects to these actions as they would undercut our historic national commitment to improve our cities and rural areas. The program cuts, eliminations and changes in the Administration's bill would literally pull the rug out from under the cities and defer the needs that the programs address until a future time at which the price tag will be even greater than at present.

The programs which are being cut and undermined by this legislation are highly effective and targeted to meet specific community development needs. They help provide the physical and social infrastructure of the cities and to leverage jobs to bolster local economies.

Even the Administration praised the effectiveness of the UDAG program and block grants in its latest urban policy report issued less than a year ago. The UDAG program, the President's report stated, is a good example of a Federal program that embodies a number of the key components of the Administration's urban policy: The program seeks to maximize local government and private sector

control and discretion, and complements private sector efforts. It is targeted to distressed areas, and it results in permanent job creation through business investment. The Community Development Block Grant (CDBG) program is also playing a key role in helping cities to adjust to their changing economic situation, according to the report. In 1983, the entitlement portion of the CDBG program provided $2.4 billion to central cities, suburban cities with over 50,000 population, and 96 large urban counties. A recent HUD study showed that CDBG funds are highly targeted to distressed and needy cities.

Over the first Reagan Administration community development related programs have been reduced in size and, if anything, should be expanded at this time instead of being curtailed.

In addition the bill makes a number of objectionable changes in the operation of the community development block grant program. A few of these changes are discussed here.

Statement of C.D. Activities

Section 103 (a) of the bill would delete the requirement under the Community Development Block Grant law that the grantees statement of activities contain a description of the grantee's past use of funds and assesment of the relationship of such use to community development objectives identified previously and to certifications related to projected use of funds. We oppose deletion of the description of past use of funds and the assesment of the relationship to C.D. objectives previously identified because such information is needed for citizens to make a timely and informed evaluation of the program and projected use of funds. Deletion of the requirements would undermine the ability of citizens effectively to participate in the C.D. process by making less information available and rendering other information in a less usable form than currently.

Housing Assistance Plan

Title I of the bill would also repeal the Housing Assistance Plan (HAP) requirement in present law. The Administration's rationale for this is twofold: the realignment of housing programs away from new construction and substantial rehabilitation and toward housing vouchers reduces the need for the HAP process and grantees will be required to certify that they will cooperate in providing housing opportunities suited to the needs of low- and moderate-income residents and those expected to reside in the community due to current or planned employment.

The objection to the first rationale is that it assumes that the Congress has made the policy judgement to do away with new construction and to pursue vouchers as the sole approach to housing assistance. The voucher program is an experiment in its infancy, by no means a proven approach, and the new construction approach is needed in many areas where there is not enough existing housing to meet local needs. Further, it is illogical to say that grantees will cooperate to meet local housing needs and at the same time to do away with the mechanism used to determine what those needs are. On what basis are communities supposed to certify that they are meeting local housing needs if there is no assessment or benchmark against which to compare their efforts? The certification proposed by the bill would be a hollow measure in the absence of the Housing Assistance Plan.

The provisions on review of applications involving the demolition or disposition of public housing in Subsection (c)(8) are also objectionable and should be deleted. This section would do away with the requirement that such applications contain a certification by appropriate local government officials that the proposed activity is consistent with any applicable HAP. Substituted for this is a weaker requirement that a local official review and comment on the proposal.

Even the review and comment requirement would not apply unless a certain number of units were threatened with demolition or disposal. The HAP, with its present requirements should be retained.

Assisted Housing

The bill would put a two-year moratorium on new assisted housing commitments and make the untested and the unproved housing voucher experiment a permanent replacement for these programs. It would also terminate the housing development grant (HODAG) program. A commensurately small amount of budget authority would be authorized under the bill to reflect the cessation of Federal housing assistance for lower income families. Beginning in fiscal year 1986, the Department of HUD will fund public housing modernization using one-time capital contributions rather than loans.

The moratorium on new construction housing would be unwise policy in view of the need for more housing units to shelter lower income persons in areas where there is an insufficient housing stock of suitable units, including units for larger families and other groups which have trouble finding shelter. The low vacancy rates in many local areas along with the evidence of public housing waiting lists and the growing problem of homelessness -- even for the working poor in some cases -- show that an exclusive reliance on the existing housing stock to house lower income people is bad public policy. The fact that in many areas Section 8 existing housing certificates are regularly turned back unused to officials should suggest that something is not right. Housing for lower income people is not there.

The HODAG program, which Congress fashioned to address the fact that in at least some geographic areas there is an actual physical shortage on lower income units, is also wrongly slated for extinction.

The housing voucher program is not yet operational and cannot therefore even be evaluated as a possible substitute or supplement to other housing assistance programs. A number of questions need to be answered about vouchers. For example, in the absence of housing assistance for new construction, won't increased available assistance for existing units via housing vouchers in tight rental housing markets lead to rapidly rising rents? The absence of fair market rental ceilings will lead to excessive rental charges by landlords under the housing voucher program, which allows program participants to pay unlimited rental fees for apartments. The bill's assumption that the program is successful, should be made permanent and should be the only significant form of housing assistance in the U.S. is unjustified.

The bill contains public and Indian housing financing reforms, which generally would provide one-time direct funding for the capital costs of projects instead of the current multi-year debt service commitments and complex loan arrangements. These "reforms" are difficult to take seriously at this time and appear to be meant to deflect attention from the proposed withdrawl of Federal support for needed public housing development and modernization. The reality of the Administration's public housing budget for fiscal 1986 is that budget authority for public housing modernization would be funded at only one-tenth the level of 1985 and that funds for additional public and Indian housing would sink to zero from $1.2 billion in 1985.

<u>Section 8 Fair Market Rents</u>

A U.S. Conference of Mayors survey of 66 cities with a total population of 26 million people in 1984 showed that high rents and the unavailability of low cost housing units have the unfortunate result that lower income people are often unable to locate suitable units in order to use their Section 8 housing certificates. In fact, according to the survey, in about half the cities 25 percent or more of the

Section 8 certificates were eventually cancelled because recipients cannot find units suitable for the program.

Earlier this year, similar problems were disclosed locally where the rental housing market for lower income people has been stretched to the limit by population inmigration and condominimum conversions. In Alexandria, Virginia, for example, local officials said that from 35 to 40 percent of the city's eligible families fail to find an apartment where they can use Section 8 certificates, according to newspaper reports.

In addition, over the last year, residential rent in the Consumer Price Index rose by 6.1 percent nationally, much more than the overall rate of inflation, which was 3.5 percent.

In view of this, it is surprising that the Administration's bill provides for a one-year suspension in establishing Section 8 fair market rents for existing housing, with the fiscal 1985 fair market rents continuing in effect for fiscal year 1986. In apparent ignorance of or disregard for what is going on in the real world, the Administration's explanation of this proposal says, in part, that "With the rate of rent increases reflecting the reduced inflation rate of the past year, this one-year suspension can be implemented without substantial impact on the program." (The attached appendix is a case study of the Washington D.C. region. It discusses the need for housing construction assistance and the Section 8 program).

FHA Insurance

Title III of the bill would extend FHA insurance programs. The Administration proposes that authority to insure mortgages for nursing homes, intermediate care facilities, and board and care facilities under Section 232, however, would be killed on September 30, 1985. In addition, no further extension is requested for the Section 235 program of homeownership assistance.

These two programs should be extended. There is a growing need for facilities for older Americans and the Section 232 program has a proven and successful track record in the provision of nursing homes and related facilites. Over 1,300 projects with 160,000 beds were insured under the program through September 1982, according to HUD. Since then the program has continued to operate. It is expected that the need to provide facilities to accomodate convalescents and persons requiring skilled nursing care or intermediate care will grow in the future.

The Section 235 program was authorized and restructured in the 1983 Housing Authorization law based on a 10-year interest reduction subsidy. A revolving fund was authorized into which recaptures are to be deposited. $150 million in budget authority was approved in 1984 for the restructured program in view of the overwhelming need for homeownership assistance for lower income people due to the affordability problem created by today's high interest rates. It is estimated that the funds which recently became available will assist 5,400 families by the end of 1986. This program should be continued so that families of limited income can share in the benefits of homeownership in the year to come.

Fair Housing

The bill contains a new Fair Housing Initiatives program to supplement existing fair housing efforts by making funding available for various administrative and private enforcement, and education and outreach activities. The bill contains an authorization of $10 million for each of fiscal years 1986 and 1987.

While the goals of this Administration proposal appear to aim at implementing the Fair Housing law, the proposal does not go far enough and the funding commitment is too meager. Moreover, if the recent newspaper reports are true that OMB has requested that HUD and the VA cease collecting race and sex

data on participation in their housing programs, it would eliminate a necessary factual basis for measuring the incidence of housing discrimination. The AFL-CIO backed the Fair Housing Amendments Act (S.1220, H.R.3482) in the last Congress. It would amend the 1968 law to put teeth in the enforcement process. A key change provides for hearings of individual housing discrimination complaints by Administrative Law Judges who would make findings of fact and issue final orders. Civil penalties up to $10,000 could be imposed by the Administration Law Judge. The judge could issue a cease and desist order, violations of which are punishable by fines of up to $1,000 a day.

The Administration's proposed fair housing initiative would appear to be helpful, but would not provide the fundamental strengthening of the law that would be provided by way of Administration Law Judges.

Appendix

The Washington D.C. Metropolitan Area — A Case Study

The rental housing situation in the Washington D.C. metropolitan area consitutes a case study example where the existing rental housing stock is inadequate to meeting the needs of lower income people.

In the D.C. metropolitan area there has been an upsurge in population over the last several years. Between 1980 and 1985, it has been estimated that a 5.4 percent increase in population to 3.4 million people, will have occurred. The population of the metro area increased by about 94,000 persons between 1980 and 1983 alone. At the same time, the stock of rental housing has been depleted by a lack of construction and by condominium conversions. The U.S. Department of Housing and Urban Development estimates that the number of rental units in the area declined by 9,300 units or 1.9 percent between 1980 and 1984.

The area rental vacancy rate declined from 5.4 percent in 1980 to 2.1 percent over this period. The present level is one third the national average rental vacancy rate, which was 6.1 percent in the fourth quarter of 1984. The local rental vacancy rate is even lower in some areas such as Alexandria, Virginia, where over 5 percent of the rental stock has vanished since 1980. The table below shows these changes in the last column the vacancy rates in the various jurisdictions of the D.C. Metropolitan area, including Alexandria, Arlington, the District of Columbia, Fairfax, Loudoun, Montgomery, Prince George's and Prince William counties.

Table I

METRO AREA RENTAL MARKET CHANGES

Jurisdiction	Population change (1980-83)	Changes in Rental Units (1980-84)	Rental Households (1984)	Vacancy Rate
Alexandria	+2,900(+2.8%)	-1,700(-5.5%)	29,426	1.1%
Arlington	-300(-0.2%)	-2,350(-5.3%)	41,646	1.4%
District	-15,300(-2.4%)	-4,550(-2.8%)	158,747	2.4%
Fairfax	+53,200(+8.9%)	-1,900(-2.7%)	68,862	2.1%
Loudoun	+3,900(+6.7%)	---------	5,147	0.3%
Montgomery	+24,900(+4.3%)	+3,250(+4.5%)	76,306	2.6%
Prince George's	+9,300(+1.4%)	-2,550(-2.5%)	99,139	2.7%
Prince William	+15,800(+10.6%)	+500(+3.4%)	15,029	1.2%
Metro Area	94,400(+3.2%)	-9,300(-1.9%)	494,302	2.1%

Source: Department of Housing and Urban Development, as published in the Washington Post, February 9, 1985.

Because of the tight rental markets, rents are rising rapidly, putting the stock of rental housing out of the reach of lower income people. The U.S. Housing and Urban Development Department estimates that the average D.C. metropolitan area rent went up by 10.6 percent between 1983 and 1984, a figure more than double the 1984 inflation rate. (See Table 2) The average rent in the area was $479 in 1984. The table below shows that all but 3-bedroom unit rentals rose at double-digit rates in 1984. Four-bedroom rentals rose by 15.7 percent to $539 per month, according to HUD. In Alexandria, overall rents increased by 18 percent to $498 in 1984. Rents for 2-bedroom apartments, normally the most sought after, jumped by 21.6 percent, from $459 to $558 a month in Alexandria.

Table 2

AVERAGE METRO AREA RENTS

Year	Average Rent	Efficiency	1 Bedroom	2 Bedrooms	3 Bedrooms	4 Bedrooms
1983	$ 433	$332	$402	$459	$421	$466
1984	$ 479	$378	$443	$509	$564	$539
Change	+10.6	+13.9	+10.2	+10.9	+8.3%	+15.7%

Source: Department of Housing and Urban Development, as published in the Washington Post, February 9, 1985.

The predictable result or rapid rent increases has been that lower income people are squeezed out of the rental market. They become the homeless. They are the ones who occupy the public housing waiting lists. They frantically seek low cost units in the tragic game of housing "musical chairs." Even armed with Section 8 housing certificates they are unable to find suitable units in many cases.

In the D.C. metropolitan area the problem of homelessness has become so bad that it now pervades the suburbs in addition to affecting the central city. In view of the severity of the problem, the metropolitan council of governments was prompted at the end of 1984 to set a regional agreement on sharing shelter services and reducing public costs in dealing with the homeless. Under the agreement, local jurisdictions will be able to conserve fiscal resources by placing homeless clients in a neighboring locality's shelter and reimbursing that jurisdiction, rather than renting emergency housing in a hotel or motel.

Meanwhile, the local homelessness problem has mushroomed and involves not only the traditional and well known categories of the jobless and the deinstitutionalized, but also lower income workers and whole families with children.

An Arlington shelter turned away almost 300 people in the last half of 1984. At a shelter in Falls Church, the average length of stay has increased over the last 3 years. In addition to free shelters at churches and with other groups, Montgomery County paid for sheltering 270 people in local shelters and motels in 1984, up from 167 in 1982. In Fairfax County, costs for sheltering the homeless have risen from $168,000 for 801 people in the fiscal year ending in June 1983 to $301,000 for 1,133 people last fiscal year. Costs are expected to exceed $500,000 this year.

In Fairfax County, the number of people waiting for help in finding low-income housing has grown by 50 percent in a few years, and the average waiting time has increased from about one year to more than two years, according to officials quoted in the local press. There is a waiting list of about 3,000 families in the county. In years past, it was possible to keep up with lower income housing needs. Between 1976 and 1982 Fairfax annually received Federal funds for support of between 500 and 600 added housing units for lower income households. Since 1982, the county has averaged only 50 to 75 new Federally assisted units each year.

The assisted housing waiting list includes 7,000 families in suburban Montgomery County.

Because the rental housing market in the local region is so tight and rents so high and rising so quickly, it is not possible for many lower income persons to use the Section 8 certificates for existing housing. A newspaper survey of local areas showed that several jurisdictions report that a share of their Section 8 certificates now go unused because families cannot find affordable units below the prevailing fair market rents. In Arlington County, for example, 80 out of 620 certificates are not being used because poor families can't find apartments they can afford. Montgomery County has been able to use from 95 to 97 percent of its Section 8 certificates. In Alexandria, 35 to 40 percent of the city's eligible families fail to find an apartment where they can use the certificates. In the past, high prices have caused problems for Section 8 recipients in Prince George's County, but a recent increase in HUD's rent limits has eased conditions there, according to local officials.

The squeeze on lower income people is especially severe for those who need 3-bedroom apartments and townhouses, according to those familiar with the local area housing market. Those who need larger units must compete with wealthy

singles and groups of individuals who can afford hefty rental increases. Higher rents push out the lowest income families because the rents exceed the limits set by the Federal government for housing that a low-income person can rent using Federal subsidies to help make the payments.

While the new experimental housing voucher system would have the advantage of permitting renters to pay rents higher than the now-prevailing fair market levels, there is no guarantee that the families would be able to find suitable shelter without paying an unbeatably high percentage of income. For many families, there might be no housing available at all in an area such as the D.C. metropolitan region, given the tightness of the market and the high rents. In this case, contrary to the views of the present Administration, the existing housing stock would be inadequate to shelter lower income people and there would be no reasonable alternative to the provision of new construction units.

(The sources for the data on the local situation are the U.S. Department of HUD, the Council of Governments and recent articles published in the Washington Post.)

FP/dl 4/4/85

American Hospital Association

AHA

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April 16, 1985

The Honorable Chic Hecht
Chairman
Subcommittee on Housing and Urban Affairs
Committee on Banking, Housing and Urban Affairs
United States Senate
535 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Hecht

On April 15, 1985, the Subcommittee on Housing and Urban Affairs held a hearing in regard to the Administration's fiscal year 1986 budget proposals for the Department of Housing and Urban Development.

I am enclosing a statement by the American Hospital Association outlining the Association's views on this matter. I respectfully request that this statement be made part of the hearing record.

Thank you very much.

Sincerely

Jack Owen

Jack W. Owen
Executive Vice President

attachment

American Hospital Association

AHA

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STATEMENT BY THE AMERICAN HOSPITAL ASSOCIATION
BEFORE THE SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
ON
THE ADMINISTRATION'S FISCAL YEAR 1986 BUDGET PROPOSALS
FOR THE
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

April 15, 1985

SUMMARY

The American Hospital Association (AHA) strongly supports the reauthorization of Section 242 of the National Housing Act which expires on September 30, 1985. This program, which provides mortgage insurance to public and private hospitals, has been vital in ensuring that certain hospitals are able to gain access to capital that is needed to maintain and upgrade hospital facilities, thus enabling these institutions to continue providing high quality health care services in their communities.

GENERAL COMMENTS

The American Hospital Association (AHA), which represents over 6,100 hospitals and health care institutions, as well as 38,000 personal members, appreciates the opportunity to present its views on the Administration's Fiscal Year 1986 budget proposals for the Department of Housing and Urban Development (HUD). Many of these proposals are contained in S.667, the Housing and Community Development Amendments of 1985, which was introduced at the request of the Administration.

The AHA is strongly opposed to Section 301 (f) of S.667 which would repeal an existing program on September 30, 1985 (Section 242 of the National Housing Act) under which the Federal Housing Administration (FHA) provides mortgage insurance to public and private hospitals.

The Administration suggests that, as a result of efforts to reduce the rate of increase in health care cost inflation and a surplus of hospital beds, there is a limited need for the program, and that the private market is capable of meeting the credit needs of hospitals in the few cases in which hospital construction is appropriate.

Use of Capital

The Administration's rationale for termination of this highly effective and efficient program is flawed in many respects. First, it equates the need for capital financing solely with the construction of new hospital beds. On the contrary, a great many hospital capital projects are undertaken for modernization and restructuring of outstanding debt. Many projects also are used to keep facilities in compliance with life and safety codes and to finance the purchase of sophisticated medical equipment that is essential to the delivery of high quality health care services in communities.

In fact, the need for access to capital is one of the most critical issues currently facing hospitals. This reflects the fact that much of current hospital capacity was built during the 1950s and 1960s and is entering the

stage at which major renovation or replacement is needed. In most urban and rural areas of the nation, the need to refurbish or replace existing facilities will continue throughout the 1980s.

Monitoring of Capital Projects

Second, in response to concerns regarding the appropriateness of certain hospital capital projects, existing federal health planning authority and many state regulatory agencies continue to monitor the need for major capital expenditures by hospitals. Certificate-of-need (CON) review procedures are required in most states to verify the need for capital expenditures, major medical equipment purchases, and new institutional health services proposed by hospitals. Moreover, under the FHA 242 program, all projects insured must have federally recognized certificates-of-need.

In addition, the recent enactment of Medicare prospective pricing legislation (P.L.98-21), which changes payments to hospitals from cost-based reimbursement to prices based on diagnosis-related groups (DRGs), is changing hospital incentives. The shift in Medicare to fixed prices, a trend which is rapidly extending to other payers, is forcing hospitals to be even more cautious in capital spending because resultant operating revenues may not be sufficient to support capital assets.

Private Market Unable to Meet Needs

Third, the Administration believes that private capital markets have met past capital needs and will continue to do so in the future. While this may be

true for a majority of hospitals, there are certain situations in which access to either tax-exempt or taxable capital financing would not have been possible without the FHA 242 hospital mortgage insurance program.

Because of sharp payment restrictions by federal and state governments and private payers, many hospitals--particularly those most dedicated to serving Medicare, Medicaid, and low-income patients--find it difficult to obtain affordable financing. The FHA 242 program has enabled the debts of these hospitals to receive investment grade ratings and, in turn, has facilitated access to capital at lower rates. These lower rates substantially reduce debt service payments which also contribute to restraining the growth in health program costs. It is important to recognize that such reduced costs also result in reduced outlays by such federal health programs as Medicare and Medicaid. These programs pay hospitals for a portion of their capital costs associated with providing services to program beneficiaries.

No Cost to Federal Government

Fourth, this program has not only been cost effective, but it also has performed in a very cost efficient manner at no cost to the federal government. Hospitals that apply for the program must pay fees and premiums based on the amounts to be insured. Moreover, since the program's inception in 1968, of $4.1 billion in mortgage insurance commitments made, only three defaults have occurred, totalling $28 million. In each of those instances, the loans involved were smaller than the average loan amount in the program.

CONCLUSION

The AHA strongly supports reauthorization of Section 242 of the National Housing Act. The Association believes that public and private hospitals unquestionably serve a vital public purpose in providing high quality health care services to communities. Hospitals also serve society through their educational and research activities. Federal mortgage insurance for hospitals--particularly those whose access to capital is dependent upon such a mechanism--is an appropriate form of federal assistance, especially because the program is essentially self-supporting and involves no substantial cost to the federal government.

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

1957 E Street, N.W. • Washington, D.C. 20006 • (202) 393-2040 • TWX: 710-822-9406 AGC WSH

April 15, 1985

The Honorable Chic Hecht
Chairman
Subcommittee on Housing and Urban Affairs
Committee on Banking, Housing and Urban
  Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

Enclosed is the statement of the Associated General Contractors of America on the proposed FY'86 funding for the Department of Housing and Urban Development.

We appreciate this opportunity to present our views on this and ask that our statement be made a part of the hearing record on this matter.

Cordially,

Susan J. Loomis

SUSAN J. LOOMIS
Associate Director
Congressional Relations

SJL/dr
Enclosure

Statement

of

The Associated General Contractors of America

Submitted to

Senate Committee on Banking, Housing, & Urban Affairs

Subcommittee on Housing & Urban Affairs

On the Topic of

Fiscal Year 1986 Budget Proposal For the

Department of Housing and Urban Development

April 15, 1985

AGC is:

- More than 32,000 firms including 8,400 of America's leading general contracting firms responsible for the employment of 3,4000,000-plus employees;
- 110 chapters nationwide;
- More than 80% of America's contract construction of commercial buildings, highways, industrial and municipal - utilities facilities;
- Over $100 billion of construction volume annually.

During recent years there has been a steady decline in budgetary support for low income multifamily housing. The Administration's budget proposal for fiscal year 1986 continues the trend. The 1986 budget proposal for the U.S. Department of Housing & Urban Development would halt any new low income housing assistance for two years including section 202 Housing for the Elderly & Handicapped, eliminate funding for new production programs authorized in 1983 including Housing Development Action Grants (HODAG) and Rental Rehabilitation Grants, eliminate Urban Development Action Grants (UDAG), reduce funding for Community Development Action Grants (CDBG), and reduce operating and modernization assistance for existing public housing.

These proposed cuts in assisted housing programs represent a reduction of 55 percent in new units assisted, 68 percent in new budget authority, and 83 percent in the number of new units reserved for new construction/substantial rehabilitation.

These cuts are proposed at a time when the nation's basic infrastructure of multifamily housing is deteriorating and the need for more low income multifamily units is increasing. A decent affordable home contributes to American productivity and quality of life in the same manner as good roads, bridges, waterways, and waste water treatment facilities. AGC has surveyed existing studies and reports on infrastructure needs and contacted over 100 organizations, states, and cities to develop a documented estimate of necessary public investment to meet presently identified

infrastructure needs. This research reveals that over the next ten years $112 billion is the minimum capital investment necessary to meet low income multifamily housing needs.

The extent of this demand is real and critical to the well-being of millions of Americans. A 1984 survey of 66 cities by the U. S. Conference of Mayors revealed 227,777 households waiting for housing assistance with an average time of twenty months between application for assistance and actual delivery of assistance. The Annual Housing Survey taken in conjunction with the census revealed that in the 1970's the total number of housing units available to households earning $3000.00 or less per year with rents at 30 percent of income dropped by 75% to a total of less than 1.5 million units. The total number of households in this category declined by only 50 percent to a total of 2.9 million leaving a shortage in this income group alone of 1.4 million units.

In recent years the Administration has focused on housing affordability, rather than new construction/rehabilitation, advocating housing "vouchers" as an eventual replacement for production programs. To date, vouchers have only been tried on an experimental basis and even they are subject to the two year moratorium proposed for 1986. Affordability, however, is only part of the low income housing crisis. The same U. S. Conference of Mayors study cited above revealed that 55 percent of the survey respondents said 25 percent or more of the Section 8 Existing Housing Certificates they issued, which are similar

to vouchers, were eventually cancelled altogether because recipients could not find units suitable for the program. 24 percent of the respondents said their cancellation rate reached 50 percent or more of the certificates issued, and 6 percent ranked the cancellation rate at 75 percent or more of those issued.

The funding levels recommended for FY 1986 by the Administration for assisted multifamily housing programs and urban development are clearly inadequate to address the serious infrastructure need for decent, affordable housing. AGC urges the Congress to restore funding for assisted housing and urban development to at minimum, FY 1985 levels.

E. J. Nolan
for inclusion in hearing record

CITY OF

MUSKEGON HEIGHTS, MICHIGAN

OFFICE OF THE MAYOR
2724 PECK STREET • PHONE 733 1351
ZIP CODE 49444

Testimony of

THE HONORABLE ROBERT A. WARREN

Mayor, City of Muskegon Heights, Michigan

submitted to the

Housing and Urban Affairs Subcommittee

of the

Banking, Housing and Urban Affairs Committee

United States Senate

April 16, 1985

I am submitting this testimony on behalf of 17 small cities that are scheduled to lose their entitlement for the Community Development Block Grant program after this fiscal year. These cities are being eliminated because they lost their designation as central cities of Metropolitan Areas after the 1980 census.*

The cities I am speaking about are:

Cocoa, Florida
West Lafayette, Indiana
Portage and Norton Shores, Michigan
Moss Point, Mississippi
Asbury Park, Long Branch and Sayreville, New Jersey
Middletown and Newburgh, New York
Concord and Salisbury, North Carolina
Orange, San Benito, and Pharr, Texas
Hopewell, Virginia
and my own city of Muskegon Heights, Michigan.

S.667, the bill you are considering, provides that these cities retain their full entitlement funding for FY86 and receive 50% of their funding for FY87. This position on the part of the Administration recognizes that there are some problems in abruptly terminating these cities from the program. My purpose is to seek your consideration of legislation, which will soon be introduced by Senator Trible, Senator Warner, Senator Riegle and Senator D'Amato, that would maintain our entitlement designation until after the next decennial census. My testimony will explain the reasons for this approach.

I believe the issue of the designation of central cities is one that has implications well beyond the interests of the affected cities and one which is worthy of the review and consideration of this Committee. The issue largely concerns the Bureau of the Census and OMB having developed a new definition of "central city," which has not been closely reviewed by this Committee and which could have implications for other designated cities. Since central city designation is the means of CDBG entitlement for all cities under 50,000 population, Census and OMB actions raise important eligibility issues.

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* Two other cities, Cape Coral, Florida, and Colonial Heights, Virginia, were also affected. Cape Coral has had designation restored because of population growth. Colonial Heights has never used CDBG funds.

Let me explain:

As a part of the 1980 census, a fairly elaborate process was developed to redefine the metropolitan areas of the nation. The purpose of the Bureau of the Census and OMB was to develop a "tiered" metropolitan designation process that more accurately described the markets and regional geography of the nation's major urban areas. For the first time, in order to link areas together, data was collected to determine commuting patterns. This commuter data was used to determine if a city or a county should be placed in the orbit of another city. Based on this data, OMB issued in June, 1983, a list of new metropolitan areas. The new tiering approach meant that instead of one set of Standard Metropolitan Statistical Areas throughout the nation, we now had Metropolitan Statistical Areas (MSA's), Primary Metropolitan Statistical Areas (PMSA's) and Consolidated Metropolitan Statistical Areas (CMSA's).

I particularly want to call your attention today to this use of commuter data. Prior to 1980 the criteria for central city status were that each central city had to be one-third the size of the largest city in the SMSA but not below 15,000. After 1980, the criteria for central city status changed. Now cities of at least 25,000 population must have 75 jobs for each 100 residents who are employed, and at least 40 percent of the workers who live in the city must be employed within the city. If the city was under 25,000 population, in addition to these two factors, it also had to be at least one-third the size of the metro area's largest city.

Since the Subcommittee members are knowledgeable about the situation and in fact have spent many hours deliberating over the nature of distress in cities, it will be apparent immediately that this new definition is one that especially affects distressed cities, which do not have the economic strength to provide jobs for their residents or pull in workers from the outside. And that, to a great extent, is what this new data has identified. The cities that could not meet the new commuter and resident worker tests are to a great extent very distressed small cities, or as one census expert has dubbed them, "mini central cities."

Many of these cities house the major concentrations of poverty within their SMA. Attached is a chart that lists these cities and provides the most recent available HUD data on distress as determined by their eligibility for the UDAG program. You will recall, in order to be eligible for UDAG, a community only needs to meet three of seven possible distress factors. Fourteen of these cities qualify as distressed. Seven meet five or more of the distress factors

and so would qualify as "extremely distressed." Six of these cities have predominately black or hispanic populations. Newburgh, New York, one of these cities, has been determined by HUD to be the most impacted metro city in the nation. Two others--Moss Point,Mississippi, and Hopewell, Virginia, have been designated the most distressed cities in their state. In Texas, the three affected cities are among the poorest of the state's entitlement cities. A majority of these cities suffer from unemployment rates well above the national average despite national progress towards economic recovery. Since this decision, Hopewell has lost a major plant facility and has yet to recover from that blow. San Benito, Texas, because of its agricultural base and the large percentage of its residents that are field workers, has a current unemployment rate of 14%. Many of the cities house what employment experts have come to call discouraged workers--those who have been unemployed so long they have given up job seeking. We estimate the real unemployment rate in Muskegon Heights to be 25%.

The third standard, requiring the city to be one-third the size of the largest city in the Metro area, also deserves a hard review. While this standard would seem to be consistent with actions before the 1980 census, the new tiering of metro areas changed its application. If commuting patterns indicate that the metro area should be part of a consolidated or primary area, then the criteria referred to the central city of the larger area. This procedure pulled Orange County, New York, into the New York City sphere, so the standard for Middletown and Newburgh became New York City. Likewise, Concord and Salisbury, North Carolina, were compared to Charlotte, and others were similarly affected. Without the OMB/Census effort to tier metro areas, a number of the cities in our group would have retained their designation as central cities.

I want to make one final point about this commuter data. In some places, the statistics were skewed because of unusual local conditions. For example, Muskegon Heights lost its designation because of recent major plant closings and their impact on city unemployment. West Lafayette, Indiana, would still qualify as a central city if all the workers commuting to Purdue University were counted as city workers. But since Purdue (a state university) is not, according to Indiana law, considered within the city of West Lafayette, the workers are not city workers and West Lafayette no longer qualifies. As was the case with a number of these cities, this situation was unsuccessfully appealed to the Bureau of the Census and OMB, but there was no willingness to develop more refined definitions.

This leads me to the approach we have taken, which is to seek continued participation in the program until the next census. This approach is necessary because the application of commuter data and the definition of metropolitan areas will be reconsidered only in preparation for the next census.

I believe that I have outlined briefly for you some "unanticipated" results of using a commuter/resident worker definition for central city that merits the attention of the Committee. Since one of the two eligibility criteria for the CDBG program is to be the "Central City of the SMSA," it should be of interest to you that a new definition which may be affected by a city's relative poverty and population composition has been added. Under the previous definition, the Committee recognized and made provision for smaller cities under 50,000 population, whose settings were urban in character and similar in make-up and needs to larger cities. With the new census definition, this provision has been altered without due consideration of its consequences.

Should the standard for continued participation in CDBG programs be the percentage of residents working in the city? Or the percentage of residents county-wide who commute to a larger urban area? Was this result anticipated by the Committee in its last review of the Community Development law? Does the Committee want OMB redefining eligibility for the programs under its jurisdiction?

I have depicted these federal actions as they have affected these 17 cities, and I believe these points are the major ones of concern to you today. However, I also want to assure the Committee that these cities have been worthy recipients of CDBG funds, and briefly describe some of their programs.

Many of these cities have actively pursued the housing goals of this program. Orange, Texas, for example, has 19.2% of the assisted units in its SMA, but only 6.3% of the population. Since this housing increases the population of lower income persons, it is not without costs to the City. To encourage cities to take on such burdens and then withdraw financial assistance from those who do, is grossly unfair.

For the most part, these cities have emphasized using CD funds for public works improvements and housing rehabilitation activities in low and moderate income neighborhoods. In Muskegon Heights, for example, we have used CD funds for major housing rehabilitation, crime reduction and neighborhood development programs. We have

also conducted a CBD facade and infrastructure improvement effort. Like the other cities, we also have built needed parks, playgrounds and neighborhood facilities, conducted code enforcement and clearance activities and enhanced public safety.

In many of the 17 cities the CDBG funds fuel a comprehensive economic development job creation effort, the continuation of which will not be possible without this assistance. Newburgh, New York has combined CDBG and UDAG to create at least 755 new jobs in the last three years. While Moss Point, Mississippi's entitlement is only $400,000 per year, they have used their CDBG money to leverage more than $1 million per year in public improvements. Asbury Park, New Jersey, and Pharr, Texas, are other examples of cities in this group that have major economic revitalization programs underway that are worthy of your continued support. These important efforts cannot proceed with sporadic, intermittent assistance decided upon by their states and influenced by their state's program priorities, whatever they may be for any particular year.

In conclusion, let me point out that these 17 cities use less than $8 million of CDBG program funds, an amount that has a negligble impact on other entitlement cities. None of the national organizations, whose spokespersons have appeared before you, object to our continuing as entitlement cities. I believe they wisely recognize that statistical definitions, which appear useful to demographers, can create a "catch 22" situation, using the very characteristics of "neediness" to eliminate qualified and worthy recipients from federal assistance.

I appreciate, on behalf of our 17 cities, the opportunity to present our dilemma to you. We are confident that you will assess our situation fairly and help us to continue in a program which has meant so much to our communities and our citizens. Thank you.

ACTION GRANT DISTRESS FACTOR 1984

STATE	CITY	POPGR <=20.7	AGE >=21.0	POV >=12.4	INCG <=4036	JOBLAG <=6.9	UNEMPLOY >=9.4	LSA >=10.0	QUAL	RANK IMP/DIS
Florida										
	Cocoa	30.9	10.4	17.6	3238	-8.9	9.3	7.1	3	368/162
Indiana	W Lafayette	67.6	22.4	21.0	3775	28.0	4.6	6.0	3	302/409
Michigan	Muskegon Heights	-25.3	43.5	25.9	2280	4.7	28.2	15.6	7	47/11
	Norton Shores	23.6	11.3	4.7	4781	47.4R	14.8	15.6	1	
	Portage	89.1	6.5	3.6	5256	24.3	8.6	8.5	-1	
Mississippi	Moss Point	186.5	10.9	16.1	3031	-10.4	15.8	9.7E	5	397/48
New Jersey	Asbury Park	-2.0	40.8	26.4	2681	3.5	12.2	7.7	6	68/108
	Long Branch	13.7	39.1	19.8	3579	-8.8	11.4	7.7	6	139/162
	Sayreville	32.9	17.4	3.1	4881	16.2	7.6	7.4	-1	
New York	Middletown	-8.6	54.3	14.1	3688	20.1	8.0	7.8	4	105/378
	Newburgh	24.3	63.3	26.7	2175	-29.3	13.8	7.8	6	1/8
N Carolina	Concord	-4.8	36.0	10.9	4065	31.6R	10.7	7.4	3	238/374
	Salisbury	6.5	33.2	14.5	3752	17.3R	10.6	6.5	5	219/281
Virginia										
	Hopewell	30.7	17.7	12.5	3612	4.6	11.8	10.1	5	375/218
Texas	Orange	-7.7	13.7	17.0	4209	21.0	16.1	11.8	4	302/294
	Pharr	51.6	9.3	37.5	2110	127.5R	14.8	15.4	4	244/150
	San Benito	9.5	23.0	30.1	2398	23.8R	11.6	11.2	6	120/128

Explanation: POP GR= Population Growth;
AGE= AGE of housing;
POV= Poverty;
INCG=Income growth;
JOBLAG= Job lag;
UNEMPLOY= Unemployment;
LSA= Labor Surplus Area;
QUAL= Qualification points; 4 or more points equal UDAG distress status
RANK= Left-hand number is the impaction ranking and the right-hand number is the distress ranking.

On each factor the median is determined for all cities and those which are above or below (whichever is indicative of distress) the median qualify on that factor. At the top of each column the median is given as well as whether qualification is based on greater or lesser than the median. For example, if population growth is less than 20.7 the city qualifies, if age of housing is greater than 21.0 a city qualifies, etc. A penalty point is awarded if the city has less than half the median percentage of poverty.

Phil

National Council of Savings Institutions
Saul B. Klaman
President

1985 MAR 25 AM 10:38

March 22, 1985

The Honorable Chic Hecht
Chairman
Subcommittee on Housing and Urban Affairs
Committee on Banking, Housing
and Urban Affairs
522 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

On behalf of the National Council of Savings Institutions, I would like to take this opportunity to address the provisions contained in FY 86 Housing Authorization legislation which will effect the members of the Council.

The National Council of Savings Institutions represents approximately 600 savings institutions with combined assets of $400 billion. As you may know, the Council was formed a year and a half ago with the consolidation of the National Association of Mutual Savings Banks and the National Savings and Loan League.

I would like to now address specific legislative concerns of the Council.

- Extension of the insuring authority for the FHA insurance mortgage program.

The programs have proven to be a cost-effective method of providing mortgage credit for moderate income homebuyers who would otherwise have difficulty finding mortgage money. This program is self supporting, and indeed has been profitable for the government. With the increase in the FHA premium two years ago from 1 to 3.8 percent, the insurance fund has become financially sound, and is in fact growing. The Council supports the extension of the FHA insuring authority.

- Continuation of the FHA negotiated interest rate program.

In 1983, the Congress recognized the complications that result when legislation imposes artificial controls on free market transactions which occur in a volatile interest rate environment when it repealed such restrictions on interest rates in Section 404 of the Housing and Urban-Rural Recovery Act (P.L. 98-181). Section 404 allows for FHA insured mortgages to "bear interest at such a rate as may be agreed upon by the mortgagor and mortgagee."

Today's market no longer resembles the post-WW II years--a time when mortgage rates were relatively stable and highly localized as well.

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Instead, today's market is extremely competitive and national in scope. The FHA ceiling must reflect current market interest rates if homebuyers are to obtain mortgage credit without paying excessive points. However, if interest rates continue to vacillate by several discount points from week to week--as, for example, they have done over the last four weeks--it will become more and more difficult for a lender or homeseller to rationalize absorbing the risks involved with such interest rate swings. In addition, lenders since the volatile days of 1979-82 now quote discounts as markets close. Those lenders negotiate a coupon rate with the borrower, and can fix the rate and the discounts for the benefit of the borrower if FHA rates continue to be set by market forces.

Furthermore, if the rates are set by regulation and points are required, house prices often rise to absorb the points. This increase in house price is certainly unwise in our current non-inflationary economy and does not reflect economic reality. If you have points hidden in the price, you can have a situation where a homeowner has a mortgage that is larger than the actual value of the house. The result is, as we see in some areas of the country, homeowners who cannot sell their homes when experiencing financial difficulty and who therefore walk away from their mortgages. The result is the historically high 7 percent delinquency rates we read about. The experience with defaults in the past few years shows a strong correlation between problem loans and low levels of homeowner equity. Therefore, it is much healthier for the FHA loans to rely on a negotiated interest rate, and not on excessive points.

In order to remain viable, the FHA will need to stay in line with the current mortgage market. The National Council supports the preservation of the market driven interest rates on FHA insured mortgages which represent a housing safety net for low and moderate income families who are good credit risks and wish to own a home.

- Extension of the authority for the GNMA to guarantee mortgage-backed securities (MBS) secured by FHA and VA mortgages.

The GNMA mortgage-backed securities program is important to the availability of funds for mortgagors using FHA and VA housing programs. This efficient, profitable mechanism has been the pathfinder for the growing conventional MBS market.

Savings institutions are the largest investors in GNMA mortgage-backed securities, and the liquidity and flexibility of these securities are important to thrifts as they approach the complex task of asset management in a deregulated interest rate environment. Thrifts have employed new methods of raising capital in the past year by using the GNMA MBS's in their portfolios as collateral for various financing options. These capital raising techniques--whether they are mortgage-backed bonds (MBB's) or collateralized mortgage obligations (CMO's), issued domestically or abroad, or the issuance of collateralized preferred stock--are important options for thrift institutions. We are therefore seeing many important functions of the GNMA mortgage-backed securities program in helping both borrowers and lenders. As I mentioned earlier, this program--which requires a 6 basis point guarantee fee--has been and is projected to be consistently profitable.

- Increase in the GNMA guarantee fee or the imposition of new so-called user fees on the MBS or debt programs of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

The Administration's FY 86 budget calls for an increase in the GNMA mortgage-backed securities guarantee fee from 6 to 15 basis points. The budget also establishes a 5 basis point fee for mortgage-backed securities issued by FNMA and FHLMC, and a 5 basis point fee for debt issued by these agencies in FY 86, rising to 8.3 basis points thereafter. The National Council strongly opposes the increase in the GNMA guarantee fee as well as the imposition of new user fees on the MBS or debt programs of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

The genesis of the user fee concept for the federal secondary market agencies came from the report of the Grace Commission, which made literally thousands of recommendations to the President as to how to garner revenues and reduce expenses. There is also a strong foundation for this proposal in the desire of the Administration to reduce the role of federally supported credit programs.

We must question the policy direction of placing a user fee on the programs of these government sponsored agencies as suggested by the Grace Commission. These agencies can raise funds at preferred so-called agency rates because of their government ties. This is no accident, but rather the result of carefully considered Congressional policy. The thrust of the user fee proposal is to in effect handicap these programs vis-a-vis the private secondary markets. It is questionable as to whether or not these fees will spur the development of a burdgeoning sector--the new private mortgage conduits--but in any case, it represents a kind of back-door privatization attempt that should not be passed by this Congress. In addition, it is simply a method to increase revenues to the federal government as none of the fees are allocated to the operations of the programs to which they are charged. We submit that the Administration's proposals on user fees are in reality a tax on home ownership--precisely what the President had wanted to avoid.

Currently we can see several new non-government entries into the secondary mortgage markets. Whether it is the Capital Access program--a joint venture between the U.S. League of Savings Institutions and Salomon Brothers--or the creation of a mortgage facility under the Prudential Insurance Corporation and Residential Funding Corporation, to name but a few, there are several new entries into the mortgage conduit field. Therefore, the fees are not necessary to spawn creativity in the private market for mortgage conduits. We submit that the private sector is quite capable of competing in developing conduits and more importantly we have yet to see a conduit that addresses entry-level housing needs as do the FHA/VA programs.

It is estimated that the fees for FNMA would generate $13 million for the Treasury in FY 86; the FHLMC fees $5 million, and the GNMA fees $32 million in additional fees.

When one looks at the revenue raising estimates of the effects of the

user fees, it is apparent that these measures--as a revenue tool in the battle against the deficit--are almost negligible. In fact, as we look at the budget for FY 86, most of the housing programs would be cut so that others, and in particular, the Defense budget would be increased.

The National Council is also concerned about the fact that the impact of the Administration proposals will not weigh equally on the two quasi-governmental agencies--FNMA and FHLMC. Fannie Mae is basically a portfolio lender and Freddie Mac is a creator of MBS's with a relatively small portfolio. Since the fees for the MBS's can be passed on to the lenders and borrowers on a per deal basis, the effects on Freddie Mac would be minimal. However, the application of user fee to debt would prove very costly to Fannie Mae.

FNMA has $83 billion in outstanding debt (as of 12/31/84) with an average maturity of 31 months. The fee would be applied to debt issued to finance either new operations or rolled-over debt. When FNMA purchased loans for its portfolio with short-term debt, it was not aware that it would have to factor in a user fee. Therefore, when old debt is rolled over, the user fee will retroactively affect business decisions made years ago. Of course, there is no way to pass these costs on to the holders of these mortgages, and the new mortgagors will have to bear the burden. FNMA estimates these fees will cost them $500 million in pretax dollars over the next five years. It simply is not good business judgement and is bad public policy to handicap single family housing in this country.

- Adjustable Rate Mortgages (ARMs)

We must express our concern over legislation passed last year by the Senate that would restrict the viability of the adjustable rate mortgage. I am referring to the Senate acceptance of an amendment offered by Senator Metzenbaum.

The adjustable rate mortgage has proven to be the saviour of the housing markets in the past year, as fixed rate mortgages rose to levels that have historically stopped all housing activity. As lenders have been able to share some of the risk inherent in long-term lending by offering adjustable rate mortgages, consumers have been able to find more attractive alternatives to the fixed rate loan. Without these alternatives, many consumers would not have been able to purchase a home.

The Metzenbaum amendment, accepted on the Senate floor with no hearings or other formal record on the subject, would have significantly diminished the utility of adjustable rate mortgages to borrowers.

The Metzenbaum amendment sought to assure consumers that they would not enter into a loan with more than a five percent increase over the initial rate. Indeed, recent surveys completed by the National Council of Savings Institutions and the U.S. League of Savings Institutions show that the vast majority of adjustable rate loans do include a so-called life of loan cap of some sort. However, many consumers choose not to pay for that feature, and pick other loans without it.

The mortgage lending industry has done much in the past year to address the concerns expressed by Senator Metzenbaum. The underwriting and pricing practices of the industry have been tightened. This will ensure reasonable increases in payments that can be borne by the consumer.

Furthermore, the area of consumer education has been addressed by the publication of an excellent consumer guide published by the Federal Reserve Board. The National Council worked with the Fed in the drafting of this booklet, entitled "Consumer Handbook on Adjustable Rate Mortgages", and we are working to distribute it among our members.

Finally, if the Congress is to enact restrictions as embodied in the Metzenbaum amendment, more needs to be known about what makes an unsafe loan.

Mr. Chairman, we view the Metzenbaum amendment as, in effect, a national usury ceiling for adjustable rate mortgages. As with other such laws, we believe that this amendment will be bad for consumers and the housing market.

Thank you on behalf of the National Council for the opportunity to present our views.

Sincerely,

Saul Klaman

Saul B. Klaman
President

TESTIMONY OF
THE NEW YORK CITY PARTNERSHIP, INC.
AND THE CHAMBER OF COMMERCE AND INDUSTRY
SUBMITTED TO THE HOUSING AND URBAN AFFAIRS SUB-COMMITTEE
OF THE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
Senator Chic Hecht, Chairman
April 15, 1985

Mr. Chairman and distinguished members of the committee, the New York City Partnership and Chamber of Commerce and Industry appreciate this opportunity to submit testimony regarding S.667 and S.591. The Partnership and Chamber represent a consortium of the City's business and civic leadership, chaired by David Rockefeller. Our objective is to mobilize private sector resources in a variety of activities designed to make New York "a better place in which to live, to work, and to conduct business". We have been successful in undertaking a number of significant projects in the areas of employment, economic development, education and housing. In virtually every instance, our activities have required a true partnership that included resources of federal, state and city government in tandem with private enterprise. One critical tool upon which we have heavily depended for carrying out the most challenging housing and economic development projects, is the Urban Development Action Grant, or UDAG.

Our testimony will focus on the success of UDAG in projects initiated by our Housing Partnership. With the committee's permission, we wish to submit for the record a copy of our alternative budget proposals contained in this joint Partnership/Chamber policy statement.

UDAG is the federal government's most successful model of public sector encouragement of private development. This program is unique in maximizing the discipline of the marketplace to keep project costs and government expenditures to an absolute minimum. It permits localities and private sector participants to develop projects that best address local needs, and to carefully target public funds for maximum leverage and economic impact. Our Partnership's members have been so enthusiastic about the efficiency of the UDAG model that we are working with New York State to adopt the format of the UDAG financing model for additional local housing initiatives.

In New York, our Housing Partnership has helped the City secure about $21 million in funds over the past 3 years to establish a New Homes Program that will result in production of some 5,000 new homes in low-income neighborhoods throughout the City. This Program has already secured more than $150 million in private financing; it is responsible for generating a substantial homebuilding industry that virtually did not exist in most of New York City; it has brought private, at-risk investment by banks and builders to dozens of neighborhoods that had attracted only deeply subsidized and fully insured housing for the past two decades; and the projects have turned these neighborhoods around, so that the private residential market is working again.

In recent months, the Partnership has worked with the City and a major private development firm, Rose Associates, in another project that promises to bring some 2 million square feet of commercial development to a blighted area of downtown Brooklyn. New York City has made substantial commitments to this project, but its financing and feasibility depend upon a UDAG grant -- in this case a federal investment of about $8 million in a project of more than $200 million. The federal role in such projects is relatively small in actual dollars, but it is critical as an incremental component of a public/private venture -- and as tangible evidence of Washington's continuing commitment to inner city areas where private enterprise cannot function without the support and encouragement of government.

Mr. Chairman and members of the committee, when the Partnership and Chamber framed their policy statement, they did not think the federal deficit would disappear without pain to anyone. The members of our Board of Directors are prominent men and women who run corporations and small businesses, in every field from heavy industry to the arts. They endorsed reducing the military current services budget by $10 to $15 billion, and freezing in addition all programs under the domestic budget for one year. These are cuts we are suggesting be made so that no program, including UDAG, has to sustain a disproportionate burden in reducing the deficit. We are committed to trimming deficit spending by at least $50 billion this year.

We in the private sector are most willing to commit a larger share of resources to assisting in the alleviation of public problems that are a responsibility of both government and the private sector. It is in our enlightened self-interest to expand investment in the nation's cities, and to promote the creation of housing and jobs for all our citizens. But we cannot replace government, nor take on obligations that are beyond the reasonable scope or capacity of our individual institutions or businesses. The concept of partnership demands that the federal government not abandon critical areas of need, but continue to provide some targeted incentives and supplements for private efforts. UDAG represents a relatively small federal dollar allocation, but it is a vital one. We urge that the 1986 federal budget not eliminate UDAG, which would signal the nation's private sector that partnerships with government are no longer a priority that are valued or recognized in Washington. This would be a high price to pay for elimination of a relatively modest federal expenditure.

Thank you.

March 12, 1985

NEW YORK CITY PARTNERSHIP AND NEW YORK CHAMBER OF COMMERCE & INDUSTRY POSITION ON THE ADMINISTRATION'S BUDGET AND TAX PROPOSALS

Federal Spending Reductions

The New York City Partnership fully endorses the President's objectives of:

- Continued economic growth; and
- Deficit reduction.

It does not, however, support specific recommendations of the Administration's proposed budget.

The Federal deficit is a critical priority, domestically and abroad. It is too big, and must be addressed now. Estimates call for a staggering $220 billion deficit in Fiscal Year 1986 (FY 86), with deficits through 1990 remaining in the range of 4% to 5% of the Gross National Product (GNP).

Economic growth alone cannot solve the problem. Congress and the Administration must take decisive action to close the gap between revenues and outlays.

The Partnership evaluated the Administration's proposed budget and its impact on New York City and State. We strongly endorse the Administration's goal of a minimum $50 billion deficit reduction in FY 86, and more beyond. We believe that the deficit should be targeted toward 4% of GNP in FY 86, with further targets for reduction to 3% in FY 87 and 2% in FY 88.

The Administration's current budget proposal places unrealistic and disproportionate burdens on certain domestic programs. While a number of these programs can and should be cut, defense and entitlement areas must also contribute. An equitable deficit reduction package requires universal sacrifice, distributes the burden fairly, and avoids inordinate and abrupt dislocations. The proposed reductions fall upon programs already cut deeply in 1981, programs that were especially important to the larger, older cities. The Partnership is concerned about the disproportionate impact on New York City and State, and in particular with the severity of program cuts in areas such as:

- Mass Transit
- General Revenue Sharing
- Medicaid
- Housing
- Education

The Partnership calls on Congress and the Administration to adopt a program that provides at least a $50 billion deficit reduction in FY 86 and to establish a basic 4-3-2 trendline to achieve a deficit of 2% of GNP by FY 88. In view of the urgency for action, we believe the program should:

- Freeze for one year the domestic budget across-the-board at FY 85 levels or FY 86 current services budget, whichever is less.

- Stretch out defense spending to reduce the current services defense budget by $10 to $15 billion.

- Freeze for one year the Social Security cost of living adjustment to reduce the current services budget by $6 billion.

The freeze period should be used aggressively by Congress and the Administration to address national priorities on a programmatic basis with a view toward a balanced budget, equal sacrifice and fair distribution of burden. The Partnership recommends the appointment of a Blue Ribbon Commission to contribute to those deliberations and to help form a national, bipartisan consensus. Commission recommendations for additional deficit reduction measures should be submitted by December.

Federal Taxation

1. We believe the first priority in reducing the deficit should be Federal spending cuts. To the extent that these reductions fall short of the minimum $50 billion deficit reduction goal, tax increases should be utilized, as a last resort. Several revenue raisers deserve consideration for temporary enactment:

   - A one year delay in indexing of personal income tax.

   - A tax on non-means tested entitlement benefits.

   - An across-the-board percentage reduction in a broad range of tax preferences.

   - A personal income and corporate surtax.

   - A petroleum/gas tax or fee.

2. The need for revenue to reduce the deficit is not to be confused with the need for a revised tax system in this country. The Partnership fully endorses Federal efforts to reduce marginal tax rates, broaden the tax base and create a fair and simpler tax system.

The Partnership urges, however, that Congress consider carefully the provisions which constitute a tax reform/ simplification package. To single out measures which disproportionately impact New York City and State raises serious concern. Specifics of grave concern to New York are:

- Non-deductibility of state and local taxes would result in double taxation for all New Yorkers and threaten businesses and jobs in New York City and State.

- Elimination or restriction of incentives for charitable giving would result in a sharp decline in donations to institutions and organizations which contribute to the well-being of New York's citizens.

The Partnership encourages broad-based coalitions among business and civic leaders and public officials across the country to work toward a balanced budget. We pledge our support and active participation to meet this challenge.

Attachment A

ADMINISTRATION'S PROPOSED BUDGET

The Administration's deficit reduction plan relies on cutbacks in domestic spending programs, other than Social Security, for 80% of the planned deficit reduction.

Proposed Deficit Reductions
($ billions, compared to 1986 current services)

Defense	$ -9
Interest on Federal Debt	-3
Social Security	0
All Other Domestic Spending	-39
Tax Receipts	0
	$ -51

In fact, actual 1986 spending will decline relative to 1985 only in domestic programs, other than Social Security.

Change in Federal Outlays 1985 to 1986
($ billions)

Defense	$ +32
Interest on Federal Debt	+12
Social Security	+12
All Other Domestic Spending	-41
	$ +15

The proposed reductions come on top of four years of cutbacks which hit the same domestic spending areas, while the net growth in the deficit was caused by increases in defense, Social Security, interest and tax cuts.

Impact of Policy Changes in the Federal Budget 1981-1985
($ billions)

Defense	$ +42
Interest on Federal Debt	+38
Social Security	+3
All Other Domestic Spending	-41
Reduction in Tax Revenues	+66
NET ADDITION TO DEFICIT	$+109

Attachment B

IMPACT ON NEW YORK CITY/STATE

New York City

- Federal support in 1986 cut $1.2B.
- Since 1981, Federal support declined $2B. NYC was forced to raise taxes and cut services.
  - For example, since 1981 nearly $600M of NYC funds replaced Federal support to:
    - 50 day care centers serving 5,700 children
    - 29 senior citizen centers
    - Education
    - Medicaid
    - Job training

New York State

- Federal support in 1986 cut $2B.
- NYS bears disproportionate sacrifice.
  - Share of U.S. population 7.5%.
  - Share of proposed cuts in key programs:

Mass Transit	17.8%
General Revenue Sharing	10.0%
Medicaid	33.0%
UDAG	11.9%
CDBG	33.0%

Attachment C

PROGRAMS MOST SEVERELY AFFECTED IN NYC/NYS BY ADMINISTRATION'S PROPOSED BUDGET CUTS

	Levels ($ millions)			Change (%)		
	FY 81 Actual	FY 85 Actual	Proposed FY 86	81-85	85-86	Comments
Mass Transit						
Operating Subsidies:						
National	$ 1,455	$ 875	$ 0	-39%	-100%	Terminated. 7¢ fare increase needed to replace.
NYS	258	139	0	-46	-100	
MTA	159	108	0	-32	-100	
Capital Aid:						
National	1,970	2,623	1,100	+33	-100	Loss equals 15,000 new buses, 290 subway cars. 20¢ fare increase needed to replace.
NYS	439	514	226	+17	-56	
MTA	381	459	188	+21	-59	
General Revenue Sharing						
National	4,650	4,650	0	0	-100	Terminated. Equals 7,000 teacher salaries.
NYS	476	465	0	-2	-100	
NYC	285	272	0	-5	-100	
Medicaid						
National	42,400	71,823	73,279	+69	+2	Costs NYC $208M (NYS $371M). Equals total City cost of health care for 167,500 AFDC children.
NYS	4,240	7,182	7,327	+69	+2	
NYC	NA	NA	NA			
Housing						
National	1,771	1,414	0	-20	-100	Terminates rental rehabilitation, low interest loans for elderly and handicapped mortgage assistance for low and moderate income families.
NYS	175	173	0	-1	-100	
NYC	44	78	0	+77	-100	
Community & Industrial Development (UDAG, CDBG, EDA)						
National	4,005	3,028	1,839	-24	-39	Terminates UDAG & EDA. Eliminates or curtails support for housing rehabilitation, infrastructure improvement and commercial revitalization.
NYS	539	437	30[illegible]	-19	-30	
NYC	361	238	16[illegible]	-34	-31	
Social Services						
National	35,890	40,256	39,746	+12	-1	Terminates Community Services Block Grants and Work Incentive Programs. Reduces or caps support for AFDC, food stamps, foster care and child nutrition.
NYS	3,340	3,965	3,969	+19	0	
NYC	NA	NA	NA			
Job Training Partnership Act						
National	5,879	3,464	2,806	-38	-23	Terminates Job Corps. Eliminates support for 10,000 NYC Summer Youth Employment jobs.
NYS	316	222	182	-30	-18	
NYC	156	82	75	-47	-9	
Small Business Administration						
National	3,193	3,354	0	+5	-100	Terminated. Over 1,300 NYS small businesses had SBA assistance in 1984.
NYS	163	188	0	+16	-100	
NYC	NA	NA	0		-100	

Attachment D

PARTNERSHIP RECOMMENDED ALTERNATIVES TO DEFICIT REDUCTION FY 1986

1986 Deficit Reduction
($ billions, reductions from current services budget)

	Administration Proposal	Alternative
Reductions in Outlays:		
Defense	$ 9	$ 10 to 15
Social Security	--	6
Other Entitlements and Discretionary Programs	35	18 to 20
Increases in Tax Receipts	--	5 to 10
Other*	7	7
Total	$ 51	$ 51

* Includes offsetting receipts from user fees, and reduction in debt service from reduced borrowing and lower interest rates.

"Standstill" or "Stretch Out" Defense Outlays

- Target to save $10B to $15B in FY 86, and greater amounts in subsequent years.

Freeze Social Security Cost of Living Adjustment for One Year

- Saves $6B in FY 86, $8B in FY 87 and $8B in FY 88.

Freeze/Reduce Other Entitlement & Discretionary Programs

- Freeze 1986 outlays at 1985 levels or at 1986 current services levels, whichever is lower.

- Target to save $18B to $20B in 1986.

Establish Blue Ribbon Commission to recommend overall budget priorities and program changes to further reduce deficit.

<u>Increase Tax Receipts As Last Resort</u>

Alternative Examples to Raise $5B to $10B:

- Impose temporary measures in 1986. Replace with permanent reform measures when feasible.

	1986 Receipts
2% Surcharge on Individual Income Tax	$7.2B
7% Surtax on Corporate Income Tax	$4.6B
Across-the-board 10% reduction in individuals' itemized deductions and 20% cut in other tax preferences	$8.0B
Delay Further Indexing to January 1, 1987	$5.3B

- Impose energy taxes to simultaneously reduce budget <u>and</u> trade deficits, and sustain progress on energy conservation.

	1986 Receipts
$5 per Barrel Oil Import Fee	$6.6B
$5 per Barrel Fee on Domestic and Imported Oil	$14.8B
12¢ per Gallon Gasoline Tax	$7.4B

- Long range tax objectives:
  - Reduce marginal tax rates.
  - Broaden tax base.
  - Spread tax burden more evenly, while encouraging economic growth.
    - Do not single out deductibility of state and local taxes and charitable contributions.

DETAILED FACT SHEETS

SUBJECT: MASS TRANSIT

FEDERAL PROGRAM SUPPORT
($ in millions)

	FY 81	FY 85	FY 86	Change 81-85	Change 85-86
Operating Subsidies					
National	$1455	$875	0	-39.1%	-100%
NYS	$258	$139	0	-46.1%	-100%
MTA	$159	$108	0	-32.1%	-100%
Capital Aid					
National	$1970	$2623	$1100	+33.1%	-58.1%
NYS	$439	$514	$226	+17.1%	-56%
NYC	$381	$459	$188	+20.5%	-59%

NATURE OF ITEM:

- Budget proposal would eliminate transit operating assistance and sharply reduce capital assistance.
- Estimated loss to MTA $108M operating aid and $269M capital assistance. NYS loss: $139M operating aid and $289M capital assistance.
- Federal aid for Amtrak passenger train service terminated by budget proposal.

SIGNIFICANCE OF ISSUE FOR PARTNERSHIP:

- Affordable transit necessary for economic vitality of New York and new economic development projects such as MetroTech and Atlantic Terminal.
- Fare hikes driven by loss of federal funds will limit mobility of poor and moderate income earners, reducing range of potential employment.

FACTS AND OBSERVATIONS:

- Operating aid loss is equivalent to 7¢ fare increase on subways and buses and would be in addition to fare hike already anticipated in 1986.
- Additional 20¢ increase in transit fare would be required to replace capital assistance loss.
- MTA has diversified funding sources since 1981: State and local governments provide 24% of capital funding; fare box and toll bonds cover another 36%.

FACTS AND OBSERVATIONS: Cont'd

- Riders and localities have taken increased responsibility for transit: Farebox, State and City aid cover more than 95% of subway and bus operating expenses in New York.

- Cuts would defer/cancel major reconstruction projects, including Park Avenue railroad tunnel rehabilitation, Penn Station train control improvements, three subway line rebuilding projects and modernization of bus repair shops.

- Many transit facilities in critical condition. Further deferral of repair projects increases likelihood of catastrophic failure affecting NYC economy.

- American Public Transit Association estimates 80% nation's transit systems would be forced to cut service and/or increase fares.

- Operating aid cuts hit small and medium-sized cities proportionately much harder than NYC.

FB2:7

SUBJECT: GENERAL REVENUE SHARING (GRS)

o FEDERAL PROGRAM SUPPORT
($ in millions)

	FY 81	FY 85	FY 86	Change 81-85	Change 85-86
National	$4650	$4650	0	0%	-100%
NYS	$476	$465	0	-2.3%	-100%
NYC	$285	$272	0	-4.6%	-100%

NATURE OF ITEM:

- Budget proposal would eliminate general revenue sharing in FFY 86.
- Estimated loss to NYC and NYS in FFY 86 $272M and $465M, respectively. Over 1,500 local governments affected in NYS.

SIGNFICANCE OF ISSUE FOR PARTNERSHIP:

- Elimination of GRS will seriously erode NYC/NYS efforts to improve public services, education and balance budgets.

FACTS AND OBSERVATIONS:

- "No strings" aid awarded to localities. Largest subsidy available.
- Elimination guarantees cuts in services and/or tax increases.
- Virtually all NYC funds used to support education.
- In 1980, state-level revenue sharing eliminated. Loss equalled more than $230M.
- To make up loss, NYC would have to eliminate salaries of 7,000 teachers or impose 16% surcharge on personal income tax or ½ cent on sales tax.
- Major source of Federal funds for small to medium sized cities for basic public services.
- Estimated loss to other localities:

  - Suffolk County $24.8M
  - Nassau County 24.0M
  - Erie County 19.6M
  - Westchester County 12.1M

FB2:10

SUBJECT: MEDICAID AND MEDICARE

FEDERAL PROGRAM SUPPORT
($ in millions)

	FY 81	FY 85	FY 86	Change 81-85	Change 85-86
Medicaid					
National	$16,500	$22,984	$23,690	+39.3%	+3.1%
NYS	$2,652	$4,266	$4,399	+60.9%	+3.1%
NYC					
Medicare					
National	$42,400	$71,823	$73,279	+69.4%	+2%
NYS	$4,240	$7,182	$7,327	+69.4%	+2%
NYC	NA	NA	NA	--	--

NATURE OF ITEM:

- Budget proposal would cap Federal Medicaid expenditures to save $1B in FY 86. Although Federal expenditures actually rise slightly, NYC and NYS estimate losses of $208M and $371M, respectively, due to rising health care costs.
- Budget proposal would freeze Medicare reimbursement rates, delay eligibility and impose other rate changes for $3.8B savings in FY 86.
- Estimated loss from both programs to NYC and NYS $237M and $465M, respectively due to failure to Federal aid to keep up with rising health care costs.

SIGNIFICANCE OF ISSUE FOR PARTNERSHIP:

- Withdrawal of Federal aid shifts costs to consumers and increases fiscal demands on localities.
- Partnership opposes increased business costs that put NYC/NYS at competitive disadvantage.

FACTS AND OBSERVATIONS:

- Although Federal expenditures rise slightly, budget proposal represents huge loss to States and localities which must absorb costs arising from inflation and Federal failure to cap health care costs.
- Medicaid program changes have greatest impact on states because they administer program to low income individuals.
- Payments to elderly, blind and disabled account for more than 60% of Medicaid expenses.
- Medicare premium increases would have $170M impact on elderly in New York over first two years.
- Ability of City's hospitals to provide quality care would be undermined.

FB2:8

SUBJECT: HOUSING

FEDERAL PROGRAM SUPPORT
($ in millions)

	FY 81	FY 85	FY 86	Change 81-85	Change 85-86
Low Income Rental Subsidies					
National	$772.5	$391.2	0	-49.4%	-100%
NYS	$74.	$50.	0	-31.8%	-100%
NYC	$29.8	$26.8	0	-10.1%	-100%
New Construction for Elderly & Handicapped					
National	$831	$600	0	-24.1%	-100%
NYS	$77	$60	0	-22.1%	-100%
NYC	$5.4	$5	0	-7.4%	-100%
Low Income New Construction/Rehabilitation(a)					
National	$167.4	$422.9	0	+153%	-100%
NYS	$23.7	$62.8	0	+165%	-100%
NYC	$8.5	$45.9	0	+400%(b)	-100%

(a) HoDAG and Rental Rehabilitation Grants were initiated in 1983.
(b) City FY 85 figure unusually high because of success with HoDAG awards.

NATURE OF ITEM:

- Budget proposal halts Federal housing initiatives.
- First year loss to NYC & NYS for privately developed low income housing, $71.9M and $173M, respectively.
- Budget proposal would sharply reduce public housing operating and modernization programs with loss to NYC of $92.5M.
- Budget proposal would eliminate moderate income homeownership and construction rehabilitation programs: in 1985, NYC received $20M in UDAG and $15M in 235 mortgage subsidies.

SIGNIFICANCE OF ISSUE FOR PARTNERSHIP:

- Housing is priority issue for Partnership. Non luxury areas of the City cannot sustain costs of conventional construction. Less than 5% of City residents earn over $50,000/year and can afford unsubsidized cost of housing.
- General housing crisis in NYC will intensify if continued withdrawal of Federal government support, eroding quality of life in NYC.

FACTS AND OBSERVATIONS:

- Without public subsidies, the private sector cannot significantly participate in alleviating the City's housing crisis.

- Total Federal support for housing already deeply cut from $30B in FY 81 to $10B in FY 85.

- HoDAG, Section 312 rehabilitation loans, and Section 202 loans for elderly housing would be eliminated.

- No new rental rehabilitation grants for two years — cumulative loss with HODAG and Sec. 202 over 5,000 additional units per year in NYC.

- Section 235 and UDAG homeownership subsidies for low and moderate income families buying first home would be terminated.

- 2-year moratorium on new rent subsidies, with 170,000 NYC households waiting for assisted housing.

- 85% reduction in Federal public housing modernization funds threatens ability of NYC Housing Authority to maintain 151,00 units.

FB2:16

SUBJECT: COMMUNITY AND INDUSTRIAL DEVELOPMENT FINANCE
(UDAG, EDA, CDBG)

FEDERAL PROGRAM SUPPORT
($ in millions)

	FY 81	FY 85	FY 86	Change 81-85	Change 85-86
Community Development Block Grant (CDBG)					
National	$2666	$2388	$1839	-10.4%	-23%
NYS	$417	$372	$304	-10.8%	-18%
NYC	$267	$213	$164	-20.2%	-23%
Urban Development Action Grants (UDAG)					
National	$675	$440	0	-34.8%	-100%
NYS	$74	$53	0	-28.4%	-100%
NYC	$52.5	$24.5	0	-53.3%	-100%
Economic Development Administration (EDA)					
National	$664	$200	0	-69.9%	-100%
NYS	$48	$12	0	-75%	-100%
NYC	$41.8	$0.5	0	-98.8%	-100%

NATURE OF ITEM:

- Budget proposal would eliminate UDAG and EDA.
- Budget proposal would cut CDBG funding 10% and shift distribution away from urban areas.
- Based on previous competitive UDAG awards, estimated loss to NYC and NYS $25M and $53M, respectively.
- Estimated loss from CDBG cuts to NYC and NYS $49M and $68M, respectively.
- Elimination of EDA will cost NYC and NYS $0.5M and $12M, respectively.

SIGNIFICANCE OF ISSUE FOR PARTNERSHIP:

- Financing for Housing Partnership projects centered on UDAG funding. UDAG elimination imperils program.
- Since UDAG leverages private capital, absence of UDAG would diminish amount of private capital committed to major development projects in transitional areas of NYC.

SIGNIFICANCE OF ISSUE FOR PARTNERSHIP (cont'd):

- Partnership housing programs have made UDAG a uniquely powerful leverage to raise as many as seven private dollars for each one public dollar. Without such leverage, affordable housing becomes an even more endangered species than it already is in NYC.

FACTS & OBSERVATIONS:

- In NYC and NYS, UDAG key to projects such as South Street Seaport and Brooklyn Navy Yard Industrial Park, as well as housing under the Housing Partnership program.

- CDBG funds used by NYC to maintain "in rem" (buildings seized for non-payment of real estate taxes) to keep housing units available for low and moderate income residents.

- Neighborhood commercial district revitalization projects financed by CDBG to stabilize residential areas.

- EDA grants fund infrastructure for commercial and industrial development.

FB2:9

SUBJECT: SOCIAL SERVICES

FEDERAL PROGRAM SUPPORT
($ in millions)

	FY 81	FY 85	FY 86	Change 81-85	Change 85-86
Child Nutrition					
National	$3600	$3804	$3428	+5.7%	-9.9%
NYS	$356	$386	$366	+8.4%	-5.2%
NYC	NA	NA		NA	
Community Services Block Grant					
National	$472	$372	0	-21.9%	-100%
NYS	$47	$37	0	-21.3%	-100
NYC	$21.5	$16.7	0	-20.5%	-100%
AFDC					
National	$7297	$8363	$8153	+14.6%	-2.5%
NYS	$746	$1060	$1040	+42.1%	-1.9%
NYC	$519.6	$606.2	$608.3%	+16.7%	+0.3%
Social Services Block Grant (Title XX)					
National	$2900	$2725	$2700	-6%	-0.9%
NYS	$243	$204	$202.6	-16%	-0.6%
NYC	$145	$133	$132.2	-8.3%	-0.6%

NATURE OF ITEM:

- Budget proposal calls for elimination, reduction and/or consolidation of 15 social services programs to cap costs.
- Estimated loss to NYC and NYS $41.4M and $107M, respectively.

SIGNIFICANCE OF ISSUE FOR PARTNERSHIP:

- Cuts would severely diminish capacity to break "cycle of poverty," reduce welfare dependency and erode overall quality of life in NYC.

FACTS AND OBSERVATIONS:

- Social services are separately funded, but functionally related, programs serving basic needs of dependent families, individuals, the handicapped and elderly. Services provide assistance for food, income maintenance, grants for counseling, education, legal services, et al.

- Community Services Block Grant which finances senior centers, day care, vocational services, Head Start and other services would be eliminated, affecting 200,000 NYC residents.

- Freeze in Title XX would weaken City's ability to meet growing need for day care and may prevent parents dependent on public assistance from achieving economic independence.

- Programs proposed to be cut or to limit eligibility in FY 86 include:

  - Social Service Block Grants.

  - Aid to Families with Dependent Children (AFDC).

  - Child Nutrition.

  - Supplemental Food Program for Women Infants and Children (WIC)

- Federal assistance for administration of Food Stamps and other programs would be capped.

FB2:11

SUBJECT: JOB TRAINING PARTNERSHIP ACT (JTPA)*

FEDERAL PROGRAM SUPPORT
($ in million)

	FY 81	FY 85	FY 86	Change 81-85	Change 85-86
National	$5879	$3464	$2806	-38%	-23%
NYS	$316	$222	$182	-29.7%	-18%
NYC	$156	$82	$75	-47.4	-8.5%

* JTPA replaced Comprehensive Employment and Training Act (CETA) in 1983.

NATURE OF ITEM:

- Budget proposal would cut funding for employment and training nationally by $1.2B and eliminate Job Corps Program.
- Estimated loss of training funds to NYC and NYS $12.2M and $40M, respectively.

SIGNIFICANCE OF ISSUE FOR PARTNERSHIP:

- Cuts adversely affect on-going private and public sector efforts to prepare youth for employment, to upgrade workforce in NYC, and to reduce welfare and related social costs.

FACTS AND OBSERVATIONS:

- Key program for states and cities for training and retraining unemployed and under-employed youth and adults. Provides work habit and skill training.
- Cuts in Federal employment training program affect private sector education and training efforts, including summer youth employment and dislocated worker re-training projects.
- 2.6M residents in NYS eligible for job training under JPTA. Cuts would deprive over 70,000 individuals from participating in program.
- Cumulative loss in NYC of 40,000 year-round training slots since 1981.
- If cuts enacted, NYC would lose 10,000 summer jobs for youth under Summer Youth Employment Program.

FB2:15

SUBJECT: SMALL BUSINESS ADMINISTRATION (SBA)

FEDERAL PROGRAM SUPPORT
($ in millions)

	FY 81	FY 85	FY 86	Change 85-86	Change 81-85
National	$3192.5	$3354	0	+5.1%	-100%
NYS	$163.2	$187.8	0	+15.9%	-100%
NYC	NA	NA	NA		

NATURE OF ITEM:

- Budget proposal would abolish SBA and terminate SBA direct loan and loan guarantee programs.
- Estimated loss to NYS businesses $188M in direct and guaranteed loans. Programs targeted to minority-owned firms and other small business cut $81M. NYC figures not available

SIGNIFICANCE OF ISSUE FOR PARTNERSHIP:

- Business start-ups would be curtailed, limiting economic recovery in depressed and minority areas.
- SBA loans are utilized by manufacturers' assistance program of the Partnership and New York University.

FACTS AND OBSERVATIONS:

- SBA provides loans and guarantees, management assistance, and special financial programs for small businesses and minority-owned enterprises.
- 1983 General Accounting Office study found that over 80% of institutions making SBA-guaranteed loans would not have made the loans without the guarantees.
- More than 1350 NYS small businesses received SBA financial assistance last year.
- SBA loans used to help retrain employees and relocate manufacturers in city.
- SBA programs have been criticized for allocating scarce credit to very high risk and non-productive ventures.

FB2:3

STATEMENT OF THE HEALTHCARE FINANCING STUDY GROUP
BEFORE THE SENATE BANKING, HOUSING AND URBAN AFFAIRS
COMMITTEE, SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
ON THE ADMINISTRATION'S FISCAL YEAR 1986 BUDGET PROPOSALS
FOR THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

APRIL 15, 1985

SUMMARY

The Healthcare Financing Study Group (HFSG) urges the reauthorization of Sections 232 and 242 of the National Housing Act, programs which provide mortgage insurance for nursing homes and hospitals, respectively. These programs will otherwise expire on September 30, 1985. They offer nursing homes and hospitals, particularly those serving poorer urban and rural areas, the credit enhancement necessary for access to capital in order to renovate, modernize, and maintain facilities and lower debt costs. In so doing, these programs provide no Federal subsidies, and in fact reduce total Federal costs for healthcare.

Introduction: The Healthcare Financing Study Group and HUD Healthcare Mortgage Insurance Programs

The Healthcare Financing Study Group (HFSG) is a 37-member association of national investment bankers and underwriters who participate regularly in financing, construction and rehabilitation of healthcare facilities (hospitals, nursing homes and intermediate care facilities). The HFSG has been particularly active in programs involving mortgage insurance under Sections 232 and 242 of the Housing Act. However, the members of the HFSG are the same firms which undertake approximately three-fourths of the private sector healthcare financing projects in the nation.

The healthcare facilities which most commonly use the Section 232 and 242 mortgage insurance programs are located in rural or inner-city areas, serving the elderly, working poor, and others who typically lack private access to quality medical care. The private sector has not provided, and does not provide, for the financing needs of these facilities. In order to undertake capital projects, these facilities rely on the credit enhancement provided by the Section 232 and 242 programs. This

credit enhancement permits these projects to receive investment-grade ratings and therefore to have access to capital at reasonable rates.

The Administration Proposal: Sunset Sections 232 and 242

The Administration has proposed in S. 667 (Section 301(e)-(f)) to terminate the authorization of these programs as of September 30, 1985. Its rationale for eliminating these programs is that 1) in the case of hospitals, there is very little need for the Section 242 program because of the existing surplus of hospital beds, and 2) the need for both programs is filled by the private sector. The experience of the HFSG's members in underwriting healthcare capital projects suggests precisely the opposite.

The Need for Healthcare Capital Projects

1. Hospitals

The Administration's position assumes that, at least in the case of hospitals, capital financing is only needed for the construction of new hospital beds. In fact, new bed construction is only one of several purposes for which capital is needed by hospitals. These purposes include:

1) expansion of ancillary and support services;

2) renovation and/or replacement of existing inpatient facilities;

3) construction of medical office buildings and facilities for ambulatory care;

4) mergers and acquisitions of separate healthcare institutions to achieve greater operating efficiencies and lower capital costs;

5) reorganization of existing inpatient services to acheive greater efficiency;

6) introduction of new services consistent with new technological developments and/or to fit the range of a community's needs;

7) restructuring of outstanding debt;

8) maintaining compliance with life and safety codes; and

9) addition of new beds and services to meet a growth in service area population.

Indeed, over the next few decades, hospitals' capital needs will increase, not for expansions of bed capacity, but because of the looming need to renovate and modernize the considerable portion of existing capacity which was constructed during the 1950s and 1960s and is now beginning to require significant replacement or modernization.

2. Nursing homes

As for nursing homes, the Administration does not contend that there is no need for capital projects. Such a contention is flagrantly at odds with the fact that America's population is aging, and the result is growing demand for long-term healthcare for the elderly. According to the Census Bureau, the number of Americans over 65 doubled in 1950-1980 and is expected to double again by the year 2030, making 20% of the population 65 or over. Declining mortality rates compound the problem of expanding

demand for long-term healthcare. The Census Bureau projects that the number of people 85 and older will grow by more than 20% during this decade, compared with a 10% increase for those of all ages.

The growth in nursing home demand will also be swelled by other demographic trends and cost containment in the healthcare industry. For example, the high divorce rate, the declining fertility rate, and the increased number of women in the workforce may conjoin to create a growing number of senior citizens without children or spouses to care for them in their later years. In addition, the efforts of hospitals to reduce costs by shifting non-acute-care patients into lower-cost alternatives, such as nursing homes and life-care facilities, will fuel the demand already fostered by the "graying of America".

In the face of this inevitably growing demand, there is a current shortage of nursing home beds resulting from state-imposed limits on nursing home construction in the course of healthcare cost containment efforts. In short, there can be no gainsaying the enormous need for increased capacity in the nursing home sector over the coming decades.

Incentives For Conservatism in Capital Undertakings

Although there is continuing, and expanding, need for capital in both the hospital and nursing home sectors, recently enacted changes in the Medicare system create strong concurrent incentives for conservatism in undertaking capital projects. The Medicare prospective pricing legislation shifts the system of

payments to hospitals from cost-based reimbursement to prices based on diagnosis-related groups (DRGs). The Medicare change to a fixed-price system is being emulated by a growing number of private payors. As a result, hospitals and other healthcare facilities are forced by prospective revenue constraints into adopting a judicious and conservative approach to contemplated capital projects.

Need Not Met By the Private Market

The Administration suggests that all healthcare capital needs can be met by the private markets. For those facilities which use the Section 232 and 242 programs,this simply is not the case. The HFSG's member firms are well qualified to attest to this fact because they are the same underwriters who participate in the great majority of the nation's private healthcare financings.

As noted earlier, the projects which typically rely on Sections 232 and 242 are located in rural and inner-city areas, with patient loads heavily composed of Medicare, Medicaid, and low-income free-care patients. The nature of these facilities' patient loads prevents them from obtaining investment-grade credit ratings. The credit enhancement provided by the Section 232 and 242 mortgage insurance programs enables these facilities to receive investment-grade ratings and, therefore, has made capital available at considerably lower rates than would otherwise be the case. Indeed, absent such credit enhancement, the

only financing alternatives for these facilities are the usurious rates in the "junk bond" market or simply not undertaking capital projects at all.

Cost Benefits to the Federal Government

It should be noted that the reduced interest cost made possible for these facilities by the Federal credit enhancement programs inures directly to the benefit of the Federal government because the Medicare and Medicaid reimbursement systems cover capital as well as operating expenditures. At the same time, the mortgage insurance programs impose no cost on the Federal government because there are no Federal subsidies involved. Indeed, these programs have been cost-effective for the Federal government, since the healthcare facilities which use the programs must pay significant fees based on the dollar value of the insured mortgages. Reauthorization of these programs will therefore perpetuate Federal cost savings, not Federal costs.

Conclusion

The HFSG strongly supports reauthorization of the Section 232 and 242 programs of mortgage insurance for nursing homes and hospitals. These programs are critical to the capital access of many institutions, principally those located in economically distressed areas with high charity-care burdens. They serve a continuing need of hospitals for renovation, modernization, debt service cost reduction, and rationalization of services and capacity, and a vastly expanding demand for nursing homes to accommodate America's graying population. The credit enhancement provided by these programs involves no subsidy, and, indeed, brings cost savings directly to the Federal Treasury.

AATA
Ann Arbor
Transportation Authority
2700 South Industrial Hwy. Ann Arbor, Michigan 48104 (313) 973-6500

February 22, 1985

The Honorable
Donald W. Riegle, Jr.
United States Senate
Senate Office Building
Washington, D.C. 20510

Dear Senator Riegle,

The purpose of this letter is to convey to you the Ann Arbor Transportation Authority's strong opposition to the proposed cuts in the FY 1986 Federal Transit Program. The attached resolution by the Ann Arbor Transportation Authority Board of Directors and the Local Advisory Council representing senior citizens and handicapped individuals, was unanimously adopted after lengthy public discussion about the dramatic impacts that the proposed Federal budget will have on public transit in Ann Arbor and across the nation.

Our understanding of the proposed FY 1986 Transit Budget and its impacts are as follows:

- Overall transit funding would be reduced from $4.155 billion to $1.386 billion or 68%.

- The Section 9 Formula Block Grant Program amounting to approximately $2.5 billion annually would be totally eliminated.

- The Section 3 Capital Discretionary Program utilizing new gas tax revenues of approximately $1.1 billion annually would be the only remaining transit funding component and would be distributed to systems on a formula similar to the current block grant formula.

- That reduced amount of formula funding could only be used for capital (Federal operating assistance would thus be completely eliminated).

- The non-Federal match for that capital funding would change from an 80/20 program to a 50/50 program, thus increasing the non-Federal share dramatically.

- UMTA staffing would be reduced from approximately 500 employees to approximately 100 employees and all regional offices would be closed.

It is estimated that the specific financial impact on the Ann Arbor Transportation Authority would be a total annual reduction

of $1,280,000 of Section 9 funds from $2,324,000 to $1,044,000 or 55.1%. The elimination of Federal operating assistance would mean a reduction of $1,145,000 in operating revenue. Since it is unlikely that the State of Michigan would be able to provide the 50% match for the Federal capital funding, there probably would not be an ability to spend any of the Federal funding proposed in the budget. The result will be cuts in necessary services, increases in fares and a deterioration in the quality of transit equipment.

We recognize and support the efforts to control spending and reduce the Federal deficit. Public transit has already accepted cuts in general funding over the past four years while other programs have enjoyed increases and the Federal deficit has risen. The FY 1986 Federal budget proposal is essentially a complete withdrawal from the funding partnership that has been supported over the years by five different Administrations. A Federal withdrawal from this funding partnership at this time would be disastrous.

Public transit makes a strong, positive contribution to the economy, in the jobs we provide and the workers and shoppers we carry to and from the commercial centers of our nation. The proposed cuts in transit funding might shave off a small portion of the Federal deficit, but the net economic effect from the loss of jobs and business revenues resulting from service cuts and ridership losses will more than offset the deficit saving.

Public transit is willing to support an equitable across-the-board freeze if necessary, but we strongly oppose being singled out disproportionately in the Administration's proposed budget.

We urge you to join in the efforts to oppose the proposed FY 1986 transit funding cuts, and we ask your consideration to support an across-the-board spending freeze applied equally to all Federal programs. Representatives from the Ann Arbor Transportation Authority will be in Washington, D.C. on March 11-12, 1985 and hope to meet with you personally to discuss our concerns. In the meantime, if I can be of assistance by providing documentation in support of these positions, please do not hesitate to contact me.

Respectfully,

Richard J. Simonetta
Executive Director

RJS/jjn
Attachment
cc: AATA Board of Directors
LAC Members
American Public Transit Association
Michigan Public Transit Association
Michigan Department of Transportation

RESOLUTION NO. 16/85

OPPOSITION TO PROPOSED CUTS IN FY1986 FEDERAL TRANSIT PROGRAM

WHEREAS, the Federal Administration has proposed significant cuts in the FY 1986 transit program, and

WHEREAS, it is estimated that the Ann Arbor Transportation Authority would lose $1,280,000 or 55% of the FY 1985 Federal funding level including a complete elimination of $1,145,000 in needed Federal operating assistance, and

WHEREAS, the long-term impacts of such dramatic changes in Federal transit funding would result in reduced service levels, higher transit fares and the inability to replace equipment when necessary, and

WHEREAS, the transit industry has already experienced Federal funding cuts amounting to nearly 30% since 1981,

NOW, THEREFORE BE IT RESOLVED, that the Board of Directors of the Ann Arbor Transportation Authority and the Local Advisory Council representing elderly and handicapped transit users oppose the proposed cuts in the FY 1986 Federal transit budget and urges the Congress of the United States to approve a budget consistent with the FY 1985 Federal transit funding levels.

Myrtle H. Cox
Myrtle H. Cox, Chair

Dorothy T. Walker
Dorothy T. Walker, Secretary

Yvonne Duffy
Yvonne Duffy, LAC

February 20, 1985
Date